12 September 2002

Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir David

Proposed Amendments to IAS 1 Presentation of Financial Statements

The Accounting Committee of the Institute of Chartered Accountants in Ireland (AC) fully supports the improvements project being undertaken by the IASB and welcomes the opportunity to offer its comments. The following are the comments of the AC on the proposed amendments to IAS 1.

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 Reporting Standard to achieve a fair presentation (see proposed paragraphs 13-16)?

Yes. AC agrees with the proposed approach and in particular the required disclosure when an entity departs from an IFRS or where compliance with an IFRS conflicts with the framework.

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) ?

Yes, AC agrees with the prohibition of such presentation.

However, many of the items that were previously dealt with under paragraphs 78 and 79 now fall under paragraph 80. Paragraph 80 should be enhanced to state that the disclosure of such items should be included within operating profit and before tax. Consideration should also be given to including separate disclosure of the tax effect of such items as in most cases significant items such as described in paragraph 82 will also have an impact on the company's effective tax rate.

Further guidance should issue as to where items referred to in paragraph 82 should be disclosed i.e. as a separate line item in income statement or in the notes to the financial statements.

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)?

AC agreed with the classification as current at the year- end and supports the view that the balance sheet should always reflect conditions as at the year -end and, as no agreement to refinance existed at that time, there is a legal obligation to repay a liability within 12 months. Adjusting events should be restricted to adjusting the size or amount of the liability, not its existence, at the year-end. The refinancing should be treated as a non-adjusting post balance sheet event and instead be disclosed in the notes to the financial statements. It does not affect conditions prevailing at the year-end.

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) ?

AC considers the above situation refers to a clarification of conditions which existed at the year end. The lender has in effect chosen to waive the conditions in the loan agreement and therefore AC considers that the liability should be treated as long term if the company has agreed the position with the lending institutions prior to the approval of the financial statements.

(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) ?

AC would fully agree with the approach adopted in the proposed IAS as the conditions as at the balance sheet date include a period of grace which the entity has time to rectify. It would seem sensible to incorporate the loan as long term if the entity rectifies the breach within the period of grace or it is probable that they will. These are clearly adjusting events as they provide evidence of conditions existing at the balance sheet date. There is also no conflict with the substance of the arrangement.

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 l09)?

AC would agree with this additional disclosure since the choice of accounting policy is vital in determining the overall performance and financial position for an entity. This extension merely requires the Directors to explain why they have adopted certain policies and will be extremely informative to the reader.

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)?

AC would support this extension of incorporating notes regarding key assumptions and other sources of measurement uncertainty into the notes. It will make readers more aware that accounting is not a precise science and that accountants must make a large number of assumptions about key variables which could end with very different final results.

AC does, however have concerns that entities will produce "boiler-plate" disclosures rather than embracing the spirit of the requirements. In this regard, AC suggests that IASB carries out a review of the disclosures that result from this requirement to ensure that the desired effect is being achieved, once the requirement has been in place for a few years.

AC would also suggest that IASB gives some consideration to the situation where the requirement for an entity to disclose certain key assumptions, e.g. with regard to the outcome of legal proceedings, could be seriously prejudicial to the entity's ability to carry on its trade.

Other Comments:

AC has the following additional comments.

(i) AC considers that further guidance is required in relation to paragraph 76 of the standard and in particular definition of the minimum line items to be presented on the face of the income statement. For example, the standard does not require disclosure of operating profit, net profit/ loss before and after minority interest.

(ii) AC considers that the references to "undue cost or effort" in paragraphs 35 to 38 should be replaced by "impracticable". The reference to "impracticable" in the previous IAS implied a higher level of difficulty to be achieved before an entity could avail of the exemption. The new requirement implies a lower level of difficulty; certain companies will undoubtedly argue that to reclassify their comparatives will require "undue effort".

(iii) IAS 1 should contain a requirement to include Director's responsibilities within the financial statements.

(iv) AC considers that the following items should also be disclosed :

- Country of incorporation
- Details of employee numbers.

If you require any clarification or further details on any of the points raised in the response please contact the Secretary to the Committee, Alix Brebbia on +353 1 6377316 or at alix.brebbia@icai.ie .

Yours sincerely

Alix Brebbia
Secretary
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12 September 2002

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Dear Sir David

Proposed Amendments to IAS 2 Inventories

The Accounting Committee of the Institute of Chartered Accountants in Ireland (AC) fully supports the improvements project being undertaken by the IASB and welcomes the opportunity to offer its comments. The following are the comments of the AC on the proposed amendments to IAS 2.

1. Do you agree with eliminating the allowed alternative of using the LIFO method for determining the cost of inventories under paragraphs 23 and 24 of IAS 2?

Yes. LIFO is not an accurate representation of most economies/businesses and carries the danger of misstatement as it tends to understate the actual cost of inventories. The only permitted methods should be those which give a close approximation to actual cost. Standard costs, the retail method, FIFO and weighted average should all be permitted in determining cost of inventory, as is consistent with ASB guidelines in SSAP 9 but whichever method is adopted it must be reviewed to ensure that it still represents a reasonable approximation to actual costs.

2. IAS 2 requires reversals of write-downs of inventories when the circumstances that previously caused inventories to be written down below cost no longer exist. IAS 2 requires the amount of any reversal to be recognised in the profit and loss account. Do you agree with retaining those requirements?

Whilst there is agreement with retaining this requirement, it should be highlighted that it is not the preferred option, for write-downs to be constantly reversed. This could lead to a “yo-yo” effect on the valuation of inventory. On that basis, there should be very strict disclosure requirements for the reversal of any write-down, highlight the reasons why the original write-down took place and the events that lead to the reversal. This reversal should obviously only be taken through the profit and loss account, if the original write-down was also. However, it does bring accounting for inventories into line with accounting for fixed assets.

Other Comments:

AC would like to draw the IASB's attention to the requirement for guidance in a related area - that of accounting for Pre-Contract costs on Construction and Service Contracts. AC believes that the Improvements Project provides an ideal opportunity for IASB to clarify the accounting treatment of such costs.

If you require any clarification or further details on any of the points raised in the response please contact the Secretary to the Committee, Alix Brebbia on +353 1 6377316 or at alix.brebbia@icai.ie .

Yours sincerely

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Dear Sir David

Proposed Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

The Accounting Committee of the Institute of Chartered Accountants in Ireland (AC) fully supports the improvements project being undertaken by the IASB and welcomes the opportunity to offer its comments. The following are the comments of the AC on the proposed amendments to IAS 8.

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)?

A change in accounting policy that has a material impact on the financial statements and fundamental errors should be accounted for as prior period adjustments. Consequently comparatives should be restated. AC considers that the wording of paragraph 21 is weak particularly the reference to "undue cost or effort"; certain companies will undoubtedly argue that to restate their comparatives will require "undue effort". AC considers that the reference to "undue cost or effort" should be replaced by the previously used wording of "impracticable" which implies a higher level of difficulty to be achieved before an entity can avail of the exemption.

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

No, the distinction between fundamental errors and other material errors should be retained and restatement should only be required for fundamental errors. Otherwise there is a danger that restated comparatives will become too frequent, thus undermining the credibility of financial reporting.

In the event that the elimination of this distinction does take place, it is imperative that the standard addresses the issue of materiality, given the absence of a reference to materiality in the preface to the IFRS.

If you require any clarification or further details on any of the points raised in the response please contact the Secretary to the Committee, Alix Brebbia on +353 1 6377316 or at alix.brebbia@icai.ie .

Yours sincerely

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Dear Sir David

Proposed Amendments to IAS 10 Events After the Balance Sheet Date

The Accounting Committee of the Institute of Chartered Accountants in Ireland (AC) fully supports the improvements project being undertaken by the IASB and welcomes the opportunity to offer its comments. The following are the comments of the AC on the proposed amendments to IAS 10.

In relation to the proposal to restrict recognition of dividends proposed before the year-end or declared after the year-end out of profits for the year, AC understands that IASB may wish to be consistent with US GAAP in this respect. However, AC considers that IASB should reconsider the appropriateness of this approach by reference to its own standard on provisions IAS 37.

In relation to dividends, many enterprises have by an established pattern of past practice, indicated to other parties that they will pay dividends out of their profits and/or retained earnings and, as a result have created a valid expectation on the part of these other parties that they will pay such dividends.

In relation to an established pattern of past practice, many enterprises publish the dates of their expected dividend payments, on the date of the expected Board meeting to propose dividends.

Consequently, it would be appropriate to recognise a liability for those dividends in accordance with IAS 37, with the amount of that dividend being established by events occurring after the balance sheet date up to the date of approval of the financial statements.

AC considers that IASB has not explained its reasoning as to why such dividends do not meet the criteria of a recent obligation under IAS 37. Further, even if IASB proceeds with its proposed amendment to IAS 10, companies that consider it is more appropriate to recognise dividends that are almost inevitably going to be approved by shareholders, may choose to declare dividends before the balance sheet date, but specifying that the amount is dependent on the outcome of its results for the period.

The proposed IAS 10 does not explain how such circumstances are to be dealt with, or how they are to be distinguished from those where the directors propose a dividend of a specific amount before the balance sheet date, or declare a dividend after the year end out of profit for the year.

In relation to subsidiary companies, the final amount of the dividend may be dependent on the results of both that subsidiary and of other companies in the group. For example, the parent may need to recognise dividends from its subsidiary in order to have adequate distributable profits. Prohibiting the subsidiary and the parent from recognising as a liability and an asset respectively, such dividends in their financial statements may cause unnecessary consequences under Company Law, such as requiring further financial statements to be prepared to legitimise the payment of dividends by the parent.

Again, if IAS proceeds with its proposal, subsidiaries may declare dividends before the balance sheet date, in an amount to be determined by reference to the results for the year (perhaps of both itself and other group companies).

Further, it appears inappropriate to prohibit recognition of dividends declared by a wholly owned subsidiary after the balance sheet date, but out of the retained earnings at that date, in view of the control relationship between the parent and its subsidiary. It would appear more relevant and understandable for the reality of the reduction in the subsidiary's net assets to be recognised rather than deferring such recognition until the subsequent period. AC considers that merely disclosing the dividend in the notes to the financial statements, even though the dividends may have changed the amount of the net assets fundamentally, is an inadequate substitute for showing the true position. In view of the critical relevance of the financial statements of entities, including parent and subsidiary companies, to the legal and taxation framework of many countries, AC strongly recommends that IASB should reconsider both the technical merit of its proposal, and its unfortunate, and presumably unintended, economic consequences.

Other Comments:

(i) Paragraph 13 should be amended to clarify that an enterprise should not prepare its financial statements on a going concern basis if management determines <u>either before or after</u> the balance sheet date that it intends to, "..liquidate the enterprise or to cease trading, or that it has no realistic alternative but to do so."

(ii) In addition, AC would like to see paragraph 14 clearly define what is meant by "a fundamental change in the basis of accounting". In particular, the standard should require that the impact of any decision to cease the business or to dissaply the going concern basis should be reflected fully by way of adjustments to all of the affected balance sheet figures.

If you require any clarification or further details on any of the points raised in the response please contact the Secretary to the Committee, Alix Brebbia on +353 1 6377316 or at alix.brebbia@icai.ie .

Yours sincerely

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12 September 2002

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Dear Sir David

Proposed Amendments to IAS 16 Property, Plant and Equipment

The Accounting Committee of the Institute of Chartered Accountants in Ireland (AC) fully supports the improvements project being undertaken by the IASB and welcomes the opportunity to offer its comments. The following are the comments of the AC on the proposed amendments to IAS 16.

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?

AC would agree with the concept that all exchanges of assets be made at the fair value of the asset given up as adjusted by any cash transferred. AC also accepts that the fair value of the asset received should be used to measure its cost if it is more clearly evident than the fair value of the asset given up.

AC believes that IAS 16 needs to address where the unrealised gain or loss resulting from any such transaction should be recognised (Profit & Loss account or Reserves).

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?

AC would agree with the concept that all exchanges of intangible assets should be measured at the fair value, except if that fair value cannot be reliably determined. AC suggests that reference should be made to the guidance given in SIC 31 Revenue - Barter Transactions Involving Advertising Services to ensure that there is consistency regarding the circumstances in which the fair value can be "reliably determined".

AC also believes that IAS 16 needs to address where the unrealised gain or loss resulting from any such transaction should be recognised (Profit & Loss account or Reserves).

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?

AC would agree that mere suspension of use should not result in a suspension of a fair depreciation charge being recorded as the asset will normally deteriorate over time. An exception could be made, however, for assets such as quarries that will not deteriorate until they are actually being depleted and they should be adopting a unit of depletion method of depreciation. If the asset is retired from active use and held for disposal it should be carried at the lower of cost and NRV.

Other comments

AC would also like to put forward the following comments to IASB:

- Residual values - AC disagrees with the proposed approach by the IASB in relation to the revision of residual values of assets to reflect current values in the calculation of depreciation. AC feels it is likely to lead back to a policy of nil depreciation for buildings, which was largely brought to an end in the UK. The existing UK standard also insists on companies carrying annual impairment reviews if they refuse to depreciate a property. The proposal mixes up the revaluation of an asset from its physical deterioration. AC would prefer to stay with the existing UK requirement that residual values be only estimated at prices at the date of acquisition or latest valuation.

- Fair Value & Market Value - AC believes that the existing UK accounting standard provides more guidance on the meaning of, and appropriate calculation of market value in relation to the valuation of assets. The guidance provided requires:

  (a) non specialised properties to be valued on the basis of Existing Use Value
  (b) specialised properties to be valued on the basis of depreciated replacement cost.
  (c) properties surplus to requirements to be valued at open market value less material directly attributable selling costs.

  AC would like to see further guidance in the area of the Fair Value basis of valuation.

If you require any clarification or further details on any of the points raised in the response please contact the Secretary to the Committee, Alix Brebbia on +353 1 6377316 or at alix.brebbia@icai.ie .

Yours sincerely

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12 September 2002

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Dear Sir David

Proposed Amendments to IAS 17 Leases

The Accounting Committee of the Institute of Chartered Accountants in Ireland (AC) fully supports the improvements project being undertaken by the IASB and welcomes the opportunity to offer its comments. The following are the comments of the AC on the proposed amendments to IAS 17.

1. Do you agree that when classifying a lease of land and buildings, the lease should be split into two elements – a lease of land and a lease of buildings? The land element is generally classified as an operating lease under paragraph 11 of IAS 17, Leases, and the building element is classified as an operating or finance lease by applying the conditions in paragraphs 3-10 of IAS 17.

AC agrees that land and buildings are separate assets and accounting treatment can be separated. AC accepts that the characteristics of land are such that in general the risk / rewards incident to ownership do not pass unless there is title transfer at the end of the lease and that it more properly qualifies as an operating leases under the definition.

2. Do you agree that when a lessor incurs initial direct costs in negotiating a lease, those costs should be capitalised and allocated over the lease term? Do you agree that only incremental

costs that are directly attributable to the lease transaction should be capitalised in this way and they should include those internal costs that are incrementally and directly attributable.

Yes. AC welcomes the standardisation of accounting treatment to one basis.

AC agrees that only incremental and directly attributable costs should be capitalised. In relation to internal costs, AC considers that there are concerns over measurement and recognition of same.

Other Comments:

The G4 + 1 Discussion Paper on Leases envisaged the elimination of the distinction between operating leases and finance leases and that all leases be reflected in financial statements on the same basis applying fair value principles and AC supports the thrust of these proposals. AC acknowledges that this current IAS proposal for IAS 17 represents clarification of the existing standard rather than the development of a new standard at this time.

If you require any clarification or further details on any of the points raised in the response please contact the Secretary to the Committee, Alix Brebbia on +353 1 6377316 or at alix.brebbia@icai.ie .

Yours sincerely

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Dear Sir David

Proposed Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates

The Accounting Committee of the Institute of Chartered Accountants in Ireland (AC) fully supports the improvements project being undertaken by the IASB and welcomes the opportunity to offer its comments. The following are the comments of the AC on the proposed amendments to IAS 21.

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?

While the definition may be appropriate for the majority of companies, there are some cases where it may be difficult or impossible to determine the primary economic environment in which it operates. An example is a company financed by multi-currency share capital which holds all of its assets in cash and which trades in the currency markets. Many such entities operate from Dublin's International Financial Services Centre and they, closed investment funds, global investment funds, diversified industrial holding companies and other similar entities will find it difficult or impossible to determine a functional currency under the proposed definition. AC believes that more guidance is required for determining the functional currency in non-straightforward cases, such as those envisaged in paragraph 10.

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?

Yes – AC believes that it is a matter for the reporting entity to determine its reporting currency, provided the comparative numbers are also presented in the same currency.

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)?

Yes

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

Yes

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)?

As was the case with the IASB, AC is split on the issue of goodwill on overseas acquisitions. Those holding the view that such goodwill should not be retranslated annually believe that goodwill arises at a point in time as a result of a specific transaction entered into between the acquirer and the seller and should then be accounted for by the purchaser in accordance with the applicable accounting standard. Why the purchaser decided to pay more for the business than the fair value of the tangible assets is a matter solely for the purchaser and it is inappropriate to assume that this difference comprises an asset which is subject to foreign currency risks. Those holding this view note that the carrying value of goodwill does not purport to bear any relationship to current values, does not reflect events occurring after the transaction takes place and is not even an asset of the acquired entity. All that can be said about the goodwill which remains in the balance sheet is that it has been subject to an impairment review and its carrying value adjusted downwards if appropriate. The point was also made that reorganisations involving the transfer of assets frequently take place following acquisitions and, if the related goodwill was regarded as a foreign currency asset, it could be difficult to determine the appropriate currency or currencies in which the goodwill should be recorded from year to year.

The counter view believes that goodwill represents the underlying future cash flows of the acquired entity and should be recorded in the same currency as those cash flows and consequently agrees with the points made in paragraph A26.

By contrast, however, AC unanimously supports the treatment of fair value adjustments as foreign currency items. These amounts essentially adjust the carrying values of the foreign currency assets and liabilities in the acquired entity's balance sheet and should be accounted for in a like manner.

***Other Comments*:**

(i) AC believes that guidance should be given as to what constitutes a branch for the purposes of paragraph 9. In particular, guidance on whether a branch must be an active operation or whether a collection of foreign currency assets (e.g. a portfolio of loans or equity interests) can constitute a branch would be welcome.

(ii) The appropriate accounting treatment for foreign currency share capital should also be dealt with in the FRS. In the past, equity share capital was, in many cases, translated at historic rate, however in other cases, particularly in unlimited liability companies, the closing rate was used. In the case of preference shares, both closing and historic rates have been used depending on the circumstances. The use of historic rate can give rise to anomalous results where foreign currency monetary assets are financed by foreign currency share capital.

(iii) AC believes that long term foreign currency monetary assets and liabilities which are regarded as part of the net investment in the foreign operation under paragraph 13 should be separately disclosed.

(iv) Paragraph 51 requires disclosure where the presentation currency is different to the functional currency of the parent. In some cases, the parent is a non-trading holding company, with all activities being carried out by subsidiaries whose functional currencies are different to that of the parent. In such circumstances, the functional currency of the parent may be largely irrelevant and disclosing that the presentation currency is different to the functional currency of the parent does not seem appropriate. AC requests that guidance is given in cases where the functional currency of a non-trading parent is different to those of its subsidiaries.

(v) While AC does not disagree with the technical reasons underlying the requirement of paragraph 33 that a change in functional currency is applied from the date of change, it is concerned that this may not be practical. It will not always be clear as to the date on which there was a change in functional currency, particularly if the original choice from a number of currencies was marginal. A more practical solution could be to require the change to be effected from the beginning of the reporting period.

If you require any clarification or further details on any of the points raised in the response please contact the Secretary to the Committee, Alix Brebbia on +353 1 6377316 or at alix.brebbia@icai.ie .

Yours sincerely

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Dear Sir David

Proposed Amendments to IAS 24 Related Party Disclosures

The Accounting Committee of the Institute of Chartered Accountants in Ireland (AC) fully supports the improvements project being undertaken by the IASB and welcomes the opportunity to offer its comments. The following are the comments of the AC on the proposed amendments to IAS 24.

1. ***Do you agree that the standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations (see paragraph 2)? "Management" and "compensation" would need to be defined, and measurement requires for management compensation would need to be developed, if disclosure of these items were to be required. If commentators disagree with the Board's proposal, the Board would welcome suggestions on how to define "Management" and compensation".***

No - AC believes that the remuneration payable to those charged with the corporate governance of the entity should be disclosed. AC considers that the current Irish/UK requirement to disclose the compensation payable to members of the board of directors, their alternates and shadow directors is reasonable and recommends that it is included in IAS 24, albeit modified to reflect the international corporate governance equivalent.

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

Paragraph 3 requires clarification. AC is unclear as to what is meant by "separate financial statements of a parent or a wholly owned subsidiary that are made available or published with consolidated financial statements". AC believes that the ultimate FRS should clarify what is meant by "made available" and "published".

Under EU legislation, the only time when financial statements of non public companies are usually made generally available is when they are filed in the Companies Office or its equivalent, which is often well after the time when the consolidated financial statements are published. In addition, filing of financial statements in the Companies Office is not required if the parent (or ultimate parent) guarantees the liabilities of the subsidiary and the parent's (or ultimate parent's) consolidated financial statements are filed in place of the subsidiary's financial statements. This route is taken by many groups in Ireland.

The requirements of paragraph 3 would seem to change the existing practice by requiring the disclosure of related party transactions in the accounts of many subsidiary company financial statements. Current practice provides an exemption from the requirement to disclose transactions between group members in the accounts of the parent and the relevant subsidiaries (provided at least 90% of the voting rights of the subsidiary are controlled within the group) once the accounts of the relevant entities disclose that the exemption is being availed of and the consolidated accounts are publicly available. AC believes that this practice has been effective and should be retained. Consistent with its response on IAS 27, AC believes that the relevant exemptions should apply to subsidiaries which are at least 90% owned rather than being restricted solely to wholly owned subsidiaries.

Other Comments

(i) AC believes that disclosure of the name of the controlling party and, if different, the ultimate controlling party is appropriate.

(ii) The definition of a related party in paragraph 9 (a) concentrates on entities, whereas individuals can also be related parties through the existence of control. AC suggests that the definition in paragraph 9 (a) (i) is changed to state "(this includes **majority shareholders**, parents, subsidiaries and fellow subsidiaries)".

(iii) Similarly Paragraph 15 (b) also ignores individuals and AC therefore suggests that the word "entities" should be changed to "parties".

(iv) AC believes that paragraph 14 (b) dealing with outstanding balances should be amended to require disclosure of whether the balances are interest bearing or interest free.

If you require any clarification or further details on any of the points raised in the response please contact the Secretary to the Committee, Alix Brebbia on +353 1 6377316 or at alix.brebbia@icai.ie .

Yours sincerely

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Dear Sir David

Proposed Amendments to IAS 27 Consolidated and Separate Financial Statements

The Accounting Committee of the Institute of Chartered Accountants in Ireland (AC) fully supports the improvements project being undertaken by the IASB and welcomes the opportunity to offer its comments. The following are the comments of the AC on the proposed amendments to IAS 27.

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

Paragraph 8 criteria:

- ***(a) It is a wholly owned subsidiary or the owners of the minority interests, including those not otherwise entitled to vote, unanimously agree that the parent need not present consolidated financial statements.***
- ***(b) Its securities are not publicly traded***
- ***(c) It is not in the process of issuing securities in public securities markets, and***
- ***(d) The immediate or ultimate parent publishes consolidated financial statements that comply with International Financial Reporting Standards.***

In general AC agrees with need to prepare consolidated financial statements unless certain exemption criteria are met. AC believes that public-interest companies should not be able to avail of these exemption criteria. In addition, AC believes that certain other issues exist with criteria (a) to (d) of paragraph 8, which warrant mention:

- Paragraph 8 mentions specifically "wholly-owned subsidiaries" as being exempt from preparing consolidated financial statements, as compared to the 7th Directive, which refers to 90% owned subsidiaries. AC believes that it is more appropriate to reduce the threshold to 90%, consistent with EU legislation and also as a matter of practicality. In certain circumstances, it can be very onerous for Directors to have to prepare group accounts because of a small external investor. Consideration could be given to giving the 10% shareholder a right to demand group accounts.

- AC would question the appropriateness of Criterion (c) above. . Clarification should be given of the phrase "in the process" e.g. when would "the process" be considered to have started? AC is unclear as to the inclusion of this item since anyone looking to invest in a company "in the process" of Listing would be able to see a three-year history under the relevant Stock Exchange rules;

- the word "and" needs to be inserted between each of conditions (a) to (d) in order to clarify that all of the conditions must be met before the exemption can be availed of;

- the reference to "publishes" in (d) ; does this mean publicly available and is this "test" met by the provision of an address from which the consolidated financial statements can be obtained?

- Clarification is needed on the position regarding companies currently exempt from the preparation of consolidated financial statements by virtue of the size exemptions set out under current EU Directives;

- Clarification is needed on the position regarding the need for a consolidation by the ultimate EU holding company.

2. Do you agree that minority interests should be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity?

The AC agrees with the proposed separate disclosure. However, there was some uncertainty as to whether IAS 39 and IAS 27 together had addressed the issue of "minority interests" in a subsidiary where another group company had issued a guarantee of repurchase or redemption of those shares. The AC was unclear as to whether there was sufficient guidance in the body of IAS standards to require these shares (ie. those subject to the guarantee) to be classified as a liability in the consolidated financial statements of the group.

3. Do you agree that investments in subsidiaries, jointly controlled entities and associates that are consolidated, proportionality 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, in the investor's separate financial statements?

AC agrees that the option to either carry at cost or fair value should be permitted. However AC consider that the standard should require companies to adopt a consistent policy from one period to the next.

3a. 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 financial statements?

Treatment between consolidated financial statements and that of the parent, should be prepared in the same method and with same conclusions. AC could foresee potential difficulties in certain industry sectors, such as VC's.

Other Comments:

AC has the following additional comments on IAS 27:

(i) AC suggests that IASB should provide clarification on the treatment to be applied when an interest in an entity is acquired as a result of the enforcement of a security. AC suggests that rights attached to shares held as a security should be treated as held by the person providing the security, where the shares are held in connection with the granting of loans as part of normal business activities and, apart from the right to exercise them to preserve the value of the security or to realise it, the rights are exercisable only in the interests of the provider of the security.

(ii) Certain basic principles (e.g. the explanation of cost method in paragraph 29B and the rationale behind consolidated accounts in para 30A) are explained in subsidiary paragraphs in the ED of revised IAS 27. However detailed knowledge of IAS 39 is assumed and although many references are made throughout the ED to measuring investments in accordance with IAS 39, there does not appear to be a subsidiary paragraph (within the Draft IAS itself) providing a brief explanation of the implications of IAS 39 for financial instruments classified as investments in subsidiary, jointly controlled entity or associate. Paragraph A12 in the Appendix provides a partial indication when it states that one of the proposed permitted methods for measuring investments is as available-for-sale financial assets under IAS 39. However, a more detailed explanation within the proposed revised standard itself would be preferable.

(iii) There is a potential inconsistency between paragraph 13A of ED of Revised IAS 27 and paragraph 1 of ED of Revised IAS 28. Paragraph 13A proposes that a subsidiary be not excluded from consolidation simply because the investor is a venture capital organization, mutual fund, unit trust or similar entity. ED of Revised

IAS 28 paragraph 1 proposes 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 where they are held by venture capital organizations, 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 and where such measurement is well-established practice in those industries.

If you require any clarification or further details on any of the points raised in the response please contact the Secretary to the Committee, Alix Brebbia on +353 1 6377316 or at alix.brebbia@icai.ie .

Yours sincerely

Alix Brebbia
Secretary
Accounting Committee
Institute of Chartered Accountants in Ireland

12 September 2002

Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir David

Proposed Amendments to IAS 28 Accounting for Investments in Associates

The Accounting Committee of the Institute of Chartered Accountants in Ireland (AC) fully supports the improvements project being undertaken by the IASB and welcomes the opportunity to offer its comments. The following are the comments of the AC on the proposed amendments to IAS 28.

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 organizations, 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)?***

Given that investments held by venture capital organizations, mutual funds, unit trusts and similar entities are generally held with a view to capital appreciation, rather than contribution to operating profits, it can be argued that the fair value basis of accounting best reflects their carrying value. In principle, AC does not disagree with this argument. However, AC would prefer to see the term "equivalent entities" rather than "similar entities", as the term "similar" has a wider meaning. Alternatively, IASB could provide examples or a definition of the types of bodies that they would consider to be "similar" to the other organisations to be excluded from the requirements of IAS 28 and 31.

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)?

AC believes that there may be situations where losses do not necessarily reflect cashflow difficulties, at least not to the point where recoverability of long-term debtor balances is seriously in doubt. Therefore, it would be unwise to automatically eliminate long-term receivables when the surplus of accumulated losses in an equity-accounted entity equals or exceeds long-term receivables.

In many situations, the "equity" interest or investment in an associate is in fact not solely comprised of equity but may also include quasi-loans or other receivable balances. AC would prefer the IASB to require a disclosure setting out how much of this figure is to be considered equity or trade. AC would like IASB to reword paragraph 22 to replace the word "investment" with the word "interest". "Interest" should include not only the investment in shares but should also include monetary items such as any long-term loans or quasi-equity items. This figure should then be required to be broken-down into its constituent parts and disclosed in the Notes to the accounts e.g. "Investment in shares" and "monetary receivables". AC suggests that these receivable balances should be reviewed separately (from the carrying amount of the associate under equity accounting) for impairment/ recoverability.

Are there any other aspects of the proposed revised standards that the ASB should request the IASB to review when finalising them?

No

If you require any clarification or further details on any of the points raised in the response please contact the Secretary to the Committee, Alix Brebbia on +353 1 6377316 or at alix.brebbia@icai.ie .

Yours sincerely

Alix Brebbia
Secretary
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12 September 2002

Sir David Tweedie
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Dear Sir David

Proposed Amendments to IAS 33 Earnings per Share

The Accounting Committee of the Institute of Chartered Accountants in Ireland (AC) fully supports the improvements project being undertaken by the IASB and welcomes the opportunity to offer its comments. The following are the comments of the AC on the proposed amendments to IAS 33.

1. **<u>Overall Comment</u>**

AC's major concern with the proposed revised IAS 33 is that AC considers IASB should reconsider the wisdom of requiring that additional earnings per share amounts be relegated to the notes to the financial statements.

While AC is conscious of the difficulties for users that have been posed by the use of pro-forma EPS numbers in recent years, AC questions whether relegating such additional EPS numbers is the solution.

AC strongly agrees with the UK ASB FRS 3 Explanation paragraph 52 that "It is not possible to distil the performance of a complex organisation into a single measure. Undue significance, therefore, should not be placed on any one measure of which may purport to achieve this aim". AC considers that relegating additional EPS numbers may militate against that view, by focusing undue prominence, and thus apparent importance, on the Basic and Diluted EPS numbers specified by IAS 33.

AC considers that the practice that has developed in the UK, since the issue of FRS 3, of preparers providing and explaining additional EPS measures of performance where they wish to highlight another version of EPS, often by excluding the effect of significant one-off items, has been well received by users of financial statements and has facilitated more prompt and incisive analysis of reported financial performance.

AC also notes that relegating such additional EPS numbers to the notes in the full financial statements may well have no effect on the approach taken by preparers in preliminary announcements of results (or other announcements of results apart from the full financial statements), which represent a more immediate, and potentially influential, reporting of financial performance, and which may not be subject to the rigours of IFRSs or FRSs.

Indeed, preparers may even choose to place the EPS "note to the financial statement" on the face of the profit and loss account in order to circumvent the proposal of IAS 33.

In considering this matter, AC strongly recommends that IASB should take account of the views of investors, analysts and other users of financial statements.

2. <u>AC's Comments on the questions posed in IAS 33</u>:

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.

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.***
- ***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).

Yes.

3. Other Comments:

AC favours strongly the inclusion of the Illustrative Examples in the Appendix to IAS 33 since it will aid preparers significantly in their interpretation of the detached application of the rules. AC considers it would be more useful and authoritative if these examples were to be approved by the Board of IASB, rather than the staff only.

If you require any clarification or further details on any of the points raised in the response please contact the Secretary to the Committee, Alix Brebbia on +353 1 6377316 or at alix.brebbia@icai.ie .

Yours sincerely

Alix Brebbia
Secretary
Accounting Committee
Institute of Chartered Accountants in Ireland

12 September 2002

Sir David Tweedie
International Accounting Standards Board
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United Kingdom

Dear Sir David

Proposed Amendments to IAS 40 Investment Property.

The Accounting Committee of the Institute of Chartered Accountants in Ireland (AC) fully supports the improvements project being undertaken by the IASB and welcomes the opportunity to offer its comments. The following are the comments of the AC on the proposed amendments to IAS 40.

1. Do you agree that the definition of an investment 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 vaue model set out in IAS 40, paras 27 –49?

Yes, however AC suggests that the proposed amendment should only be made available for assets held under an operating lease where the lease term represents a significant portion (90%) of the useful life of the asset.

AC would prefer that the issue of leasing was resolved in its entirity, however in the meantime, it seems appropriate that that the changes are supported to deal with the problems anticipated in those countries where there are issues regarding leasing and in particular land leases.

2. Do you agree that a lessee that classifies a property interest held under an operating lease as investment property should account for the lease as if it were a finance lease?

Yes.

3. Do you agree that the Board should not eliminate the choice between the cost model and the fair value model in the Improvements Project, but should keep the matter under review with a view to reconsidering the option to use the cost model in due course?

AC accepts the reasoning for adopting a choice between fair value model and cost model. However, AC would prefer that the fair value model should only be used without any option particularly in those countries where the fair value model had previously been applied.
The cost model should only be used where it is impracticable to use fair value e.g. if there is no active market for such properties in that country/area.

If you require any clarification or further details on any of the points raised in the response please contact the Secretary to the Committee, Alix Brebbia on +353 1 6377316 or at alix.brebbia@icai.ie .

Yours sincerely

Alix Brebbia
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