APPENDIX 1

Exposure- Draft on Improvements to IAS

General comment applying to all improved standards

The introductory paragraph to each of the proposed standards notes that IAS are not intended to apply to immaterial items, and cross-refers to § 12 of the « Preface to International Accounting Standards ».
Unfortunately, §12 of the exposure-draft has been dropped from the Preface, before it was published in July this year.
We therefore recommend that the introductory paragraph cross-refers to § 8 of the Preface (that paragraph states that IFRS are based on the Framework) and to § 29-30 of the Framework (both paragraphs deal with materiality).

IAS 1 Presentation of Financial Statements

IAS 1 : Question 1

Do you agree with the proposed approach regarding departure from a requirement of an International Financial Reporting Standard or an Interpretation of an International Financial Reporting Standard to achieve a fair presentation (see proposed paragraphs 13-16) ?

We agree that a true and fair view override should be permitted in extremely rare circumstances. However, in our opinion, IAS/ IFRS should be applied consistently across all jurisdictions. Therefore we recommend that paragraph 15 and the end of paragraph 13 are deleted.

IAS 1 : Question 2

Do you agree with prohibiting the presentation of items of income and expense as ‘extraordinary items’ in the income statement and the notes (see proposed paragraphs 78 and 79) ?

We agree that current practice tends to enlarge the definition for extraordinary items excessively. However we consider that there should be extraordinary items, although they should indeed be restricted to extremely rare circumstances.
We therefore do not support the proposed change; instead we call for further guidance to be issued on the subject. We believe that the issue should be resolved as part of the performance reporting project.

IAS 1 : Question 3

Do you agree that a long-term financial liability due to be settled within twelve months of the balance sheet date should be classified as a current liability, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue (see proposed paragraph 60) ?

Yes, we agree that liabilities be reported and classified as at the balance sheet date. Negotiations conducted before financial statements are authorised for issue but after the balance sheet date meet the definition of a "non-adjusting event after the balance sheet date", in accordance with IAS 10.
To be consistent with IAS 10, disclosures should be made, that enable users to assess the likely amounts and timings of future cash-outflows.

IAS 1 : Question 4

Do you agree that :

(a) *a long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement should be classified as current at the balance sheet date, even if the lender has agreed after the balance sheet date, and before the financial statements are authorised for issue, not to demand payment as a consequence of the breach (see proposed paragraph 62) ?*

(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) ?*

Yes, we agree for the same reasons as explained above. We would also like to see a requirement for appropriate disclosures to be made in such situations. We therefore believe that a link should be established with IAS 32, regarding disclosures of defaults in payments and other breaches of loan agreements, as proposed in the exposure-draft of proposed amendments to IAS 32 (§93A(j) and 93B).

IAS 1 : Question 5

Do you agree that an entity should disclose the judgements made by management in applying the accounting policies that have the most significant effect on the amounts of items recognised in the financial statements (see proposed paragraphs 108 and 109) ?

Although we agree that judgements made by management in applying accounting policies form information useful to users of financial statements, we do not support the proposed paragraphs 108 and 109. The requirement is too broadly defined and we are concerned that this may result in companies making boiler plate disclosures. We therefore recommend that further and more detailed guidance be provided, if such a requirement is to be introduced. Please refer also to answer to question 6 below.

IAS 1 : Question 6

Do you agree that an entity should disclose key assumptions about the future, and other sources of measurement uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year (see proposed paragraphs 110-115) ?

In our opinion, the disclosures requested belong to the operational and financial review rather than the financial statements and therefore should not be included in the notes to the financial statements. We recommend that the Board deal with these issues as part of a broader project on management's discussion and analysis, at an appropriate time in the future.

IAS 2 : Inventories

IAS 2 : Question 1

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

No, we do not agree. Conceptually, we do not think that one method is superior to the other, since all methods are no more than alternative ways of determining the cost of goods sold. In practice, we observe that, for certain industries (for example those involved in structural inventory systems), LIFO gives the most appropriate valuation. For these reasons, we are not in favour of eliminating this option.

<u>IAS 2</u> : Question 2

IAS 2 requires reversal of write-downs of inventories when the circumstances that previously caused inventories to be written down below cost no longer exist (paragraph 30). IAS 2 also requires the amount of any reversal of any write-down of inventories to be recognised in profit or loss (paragraph 31).
Do you agree with retaining those requirements?

Yes, we do. We note that these requirements are well established accounting practices in some countries.

IAS 8: Accounting policies, Changes in accounting estimates and Errors.

<u>IAS 8</u> : Question 1

Do you agree that the allowed alternative treatment should be eliminated for voluntary changes in accounting policies and corrections of errors, meaning that those changes and corrections should be accounted for retrospectively as if the new accounting policy had always been in use or the error had never occurred (see paragraphs 20, 21, 32 and 33)?

Yes, we do. Reducing options enhances comparability, and in our opinion, the previous benchmark treatment provides, the most useful information to users.

<u>IAS 8</u> : Question 2

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

Yes, we do. The distinction was difficult to apply in practice; its removal should make things easier and clearer.

Other items:

Undue cost or effort as meant in IAS 8, §33. We recommend that the Board include appropriate additional guidance and disclosure requirements , in order to avoid uncontrollable abuse of this exemption.

Disclosure requirement related to future changes in accounting policies (present § 48, proposed § 19). We strongly object to § 19. We believe it is unreasonable to require disclosure of the future changes in accounting policy. We consider this would be an undue burden for many companies and may impair comparability as some companies would make disclosures whilst others would not. Companies may claim that information is not available in those cases when early adoption or measurement would unfavourably impact on their results.

Also, we believe that the choice of a later date for full introduction of a standard is made by the Board because earlier adoption could appear problematic.

IAS 16: Property, plant and equipment.

<u>IAS 16</u> : Question 1

*Do you agree that all exchanges of items of **property, plant and equipment** should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably (see paragraphs 21 and 21A)?*

No, we do not agree. Although we understand that coming up with a definition of similar and dissimilar assets might be a difficult task, we observe that in practice the exercise of judgement is reliable. On the other hand, removing the distinction might lead to "artificial" transfers being built up with "friendly" third parties, in order to achieve a convenient revaluation of assets or avoid a depreciation and reach a more desirable level of income.

<u>IAS 16 – 1</u> : Question 2

*Do you agree that all exchanges of **intangible assets** should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably? (See the amendments in paragraphs 34-34B of IAS 38, Intangible Assets, proposed as a consequence of the proposal described in Question 1.)*
(Note that the Board has decided not to amend, at this time, the prohibition in IAS 18, Revenue, on recognising revenue from exchanges or swaps of goods or services of a similar nature and value. The Board will review that policy later in the context of a future project on the Recognition of Revenue.)

No, we do not agree, for the same reasons as given in our answer to question 1 above.

<u>IAS 16 – 1</u> : Question 3

Do you agree that depreciation of an item of property, plant and equipment should not cease when it becomes temporarily idle or is retired from active use and held for disposal (see paragraph 59)?

No, we do not fully agree with paragraph 59.
We concur with the Board that depreciation of an item of property, plant and equipment that becomes temporarily idle should not cease. We recommend however that such circumstances should immediately trigger an impairment test of the asset and a re-assessment of its useful life and depreciation rate. After such a review, an asset held for sale should be carried at a value equal to its net selling price and the related depreciation charge should be reduced to nil.

Other Comments

Component approach

We are concerned that the component approach described in IAS 16 lacks guidance. The only criteria provided by the standard at this stage to identify components are the similarity of useful lives and pattern of benefits provided to the entity. The concept would be more practicable if the Board provided additional criteria for the identification of components.

Also we have question on the link between the application of the component approach and the review of residual value. Should there be as many residual values as there are different components?

Residual value

We think that the new definition of the residual value is more precise than the previous one but we believe that systematic annual review is not appropriate in most situations.

Such a systematic review would be very unpractical and would create major difficulties in the compensation of depreciation.

Furthermore, we consider that this issue should be better addressed through impairment.

IAS 17 : Leases

<u>IAS 17</u> : Question 1

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

Whilst we agree in principle, we perceive many practical problems in making the split between these two elements. We also disagree that a lease of land and building be classified as a finance lease because of the impracticability of the split. This, in our opinion, does not constitute a relevant criteria. We recommend that the Board defer any change in the classification of leases until the lease project has been included in the active agenda.

<u>IAS 17</u> : Question 2

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

Do you agree that only incremental costs that are directly attributable to the lease transaction should be capitalised in this way and that they should include those internal costs that are incremental and directly attributable?

We welcome the reduction of options and agree with the option retained. However, we would welcome further guidance on incremental costs that are suitable to be capitalised: a definition similar to paragraph 25 of IAS 22 would appear appropriate. We also consider that capitalised costs must at least be covered by future income streams.

IAS 21: The effects of changes in foreign exchange rates

<u>IAS 21</u> : Question 1

Do you agree with the proposed definition of functional currency as "the currency of the primary economic environment in which the entity operates" and the guidance proposed in paragraphs 7-12 on how to determine what is an entity's functional currency?

Yes, we agree.

IAS 21 : Question 2

Do you agree that a reporting entity (whether a group or a stand-alone entity) should be permitted to present its financial statements in any currency (or currencies) that it chooses ?

Yes, we agree.

IAS 21 : Question 3

Do you agree that all entities should translate their financial statements into the presentation currency (or currencies) using the same method as is required for translating a foreign operation for inclusion in the reporting entity's financial statements (see paragraphs 37 and 40)?

Yes, we agree

IAS 21 : Question 4

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

Yes, we agree

IAS 21 : Question 5

Do you agree that :

(a) goodwill and

(b) fair value adjustments to assets and liabilities that arise on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation and translated at the closing rate (see paragraph 45)?

No, we do not agree with proposed § 45 in its entirety.
We agree that assets and liabilities that arise on the acquisition of a foreign operation be dealt with as assets and liabilities of the acquired entity.
In their basis of conclusions (§ A24-A27), the Board members acknowledge that goodwill is a complex issue, that difficulties may arise when the acquired entity contains businesses that have different functional currencies.
In our opinion these difficulties should be analysed and dealt with prior to the issuance of any amendment. Also we believe that this issue should be dealt with in relation to the allocation of goodwill. We therefore recommend that this subject be appropriately dealt with as part of the active Business Combinations project.

IAS 24: Related parties

IAS 24 : Question 1

Do you agree that the Standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations (see paragraph 2) ?

'Management' and 'compensation' would need to be defined, and measurement requirements for management compensation would need to be developed, if disclosure of these items were to be required. If commentators disagree with the Board's proposal, the Board would welcome suggestions on how to define 'management' and 'compensation'.

No we do not agree.
Information regarding the compensation of key management personnel is clearly of legitimate interest to investors and stakeholders. In our opinion disclosure of this information should not rely on local jurisdictions.
We agree with the definition of "key management personnel" as set forth in current proposed § 9 d) of IAS 24. As for the definition of "compensation", we recommend that IAS 24 refers to, or is based on, IAS 19, §4.

IAS 24 : Question 2

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

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

We support the exemption and would be in favour of extending it by reducing the 100% threshold to 90%.

Other comments

Names of transacting related parties: we disagree with the proposed wording of IAS 24 § 14. We consider that requiring the "nature" of the related party relationship is insufficient. We believe that the name of the transaction related party should also be disclosed.

IAS 27 : Consolidated and separate financial statements

IAS 27 : Question 1

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

We agree with the principle set forth in IAS 27 § 8. However, for practical reasons, we suggest that § 8 be improved. We consider that consolidated financial statements need not be prepared if " no objection has been received – within a span of time (to be defined) prior to the issuance of financial statements – from the minority which exceeds a certain threshold level (to be defined)". We consider indeed that the default of response of individual shareholders ***(not sure what you mean here)*** might result in the preparation of financial statements that would be a burden for the entity and of no use to anyone. We are in favour of a minimum threshold so as to avoid shareholders with token shareholdings who bear a grudge against the company causing a nuisance by forcing the company to incur what would otherwise be unnecessary costs..

IAS 27 : Question 2

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

Yes, we agree. This presentation appears consistent with minority interests being indeed part of equity. We however would have expected the Board to adopt a consistent view in relation to the presentation of income. We disagree with the basis for conclusions of IAS 1, § A-18, and suggest that net income be measured as a whole. Parent and minority shares in net income could be shown below the net income line.

IAS 27 : Question 3

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

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

No, we do not agree on the elimination of the option of using the equity method in accounting for investments in subsidiaries, jointly controlled entities and associates in the investor's separate financial statements. We believe, in fact, that the equity method option should be kept, as this method appears economically correct and meaningful. Moreover, any detailed information on the dividend flows of the subsidiary, jointly controlled and associated company can be found in its separate financial statements.

By contrast, we do agree that if investments in subsidiaries, jointly controlled entities and associates are accounted for in accordance with IAS 39 in the consolidated financial statements, this should hold true also for the investor's separate financial statements. There is no reason why a different method from the one used in the consolidated accounts should be required in the separate accounts of the investor.

IAS 28: Accounting for investments in associates

IAS 28 : Question 1

Do you agree that IAS 28 and IAS 31, Financial Reporting of Interests in Joint Ventures, should not apply to investments that otherwise would be associates or joint ventures held by venture capital organisations, mutual funds, unit trusts and similar entities if these investments are measured at fair value in accordance with IAS 39, Financial Instruments: Recognition and Measurement, when such measurement is well-established practice in those industries (see paragraph 1) ?

Yes, we agree. We would also welcome research in extending this issue in relation to subsidiaries for consistency of approach.

IAS 28 : Question 2

Do you agree that the amount to be reduced to nil when an associate incurs losses should include not only investments in the equity of the associate but also other interests such as long-term receivables (paragraph 22) ?

It is our opinion that the share of the loss should be reflected in full.

IAS 33: Earnings per share

We do not comment on the proposed changes.

IAS 40: Investment property

IAS 40 : Question 1

Do you agree that the definition of investment property should be changed to permit the inclusion of a property interest held under an operating lease provided that :

(a) the rest of the definition of investment property is met; and

(b) the lessee uses the fair value model set out in IAS 40, paragraphs 27-49?

IAS 40 : Question 2

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

We agree neither on question 1 nor on question 2. We believe that this issue would be best dealt with alongside the upcoming global project on leases rather than making changes to IAS 40 in isolation.

IAS 40 : Question 3

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

As a result of the above, we believe that it is not appropriate at this stage to look at the issue of either the fair value or cost model.