Memo

To: International Accounting Standards Board

From: Canadian Accounting Standards Board Staff

Date: September 4, 2002

Re: **Proposed Improvements to International Accounting Standards May 2002**

The following comprises the response of Canadian Accounting Standards Board staff (AcSB staff) to the IASB's Invitation to Comment on Proposed Improvements to International Accounting Standards, dated May 2002.

A number of the proposed improvements will move IASB standards closer to Canadian GAAP. However, some of the proposed changes would create differences with Canadian GAAP. Any proposals for changes in Canadian standards will be separately exposed for comment in Canada in due course, some as part of existing AcSB projects, and some as part of a possible project to update, amend or otherwise improve a number of CICA Handbook sections.

IAS 1: Presentation of Financial Statements

Responses to questions

Question 1: Our preference would be to eliminate the ability for an entity to depart from IFRS, as we are presently proposing in the AcSB Re-exposure draft, *Generally Accepted Accounting Principles*, September 2002. However, we accept that this is not presently possible within an

IASB Improvements project. Therefore, we agree with the approach regarding departure from a requirement of an IFRS or an Interpretation of an IFRS to achieve a fair presentation, within the bounds of the environment in which IFRS operate and what can reasonably be achieved in an "Improvements" project. We agree with the proposed disclosures that would be required when an entity departs from IFRS.

Question 2: We agree that extraordinary items should not be presented on the face of the income statement separately from the profit or loss from ordinary activities, as presently required by IAS 8. We also agree that there is no need to define what constitutes an extraordinary item. Further, we understand that the intent of this proposal is to preclude the presentation of extraordinary items net of tax. We agree with that intent, also. All items of income or expense, whatever their nature, should be included within profit and loss and those that are of such size, nature or incidence that their disclosure is relevant to an understanding of the entity's performance should be disclosed separately. However, we do not believe that the proposed paragraphs 78 and 79 of revised IAS 1 effectively achieve this.

Paragraph 78 effectively states only that an entity cannot use the term "extraordinary" in describing items of income or expense – it could still use some similar term, such as "unusual" or "abnormal". To state that no item shall be presented as an "extraordinary item", when the definition of such a term has been deleted from IFRS, provides no additional guidance.

We note that paragraph 73 already requires all items of income and expense to be included in the determination of profit or loss unless a Standard requires or permits otherwise. We suggest replacing paragraphs 78 and 79 with a paragraph stating, "An entity shall not present any items of income and expense separately from the profit or loss from ordinary activities on the grounds that they are extraordinary, unusual or abnormal". This would include not permitting the presentation of a sub-total that attempts to distinguish such items. For greater certainty, it might be specified, also, that such items not be presented net of tax.

Also, we suggest that clarification of "nature or incidence" in paragraph 80 would be desirable. A non-italicised paragraph stating that neither the term "extraordinary," nor similar terms, would be used to describe the items in paragraph 80 might suffice.

Question 3: We agree that a long-term 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. In particular, we agree with the supporting rationale for this position in the Basis for Conclusions.

Question 4: We 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.

We believe 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 should be 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. We do not believe that it is necessary for the entity to have rectified the breach within the period of grace, or that it be probable that the breach will be rectified. We believe that if the lender has agreed by the balance sheet date that there is a grace period long enough that the loan will not have to be repaid within twelve months it remains valid to classify this non-current (although information about the breach of covenant should be disclosed).

Question 5: We agree that an entity should disclose the judgments made by management in applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements. However, we believe that further guidance is necessary as to what is expected by this disclosure. For example, how should "the most significant effect" be assessed? Furthermore, the proposal focuses on effects on the "amounts" of items recognised in the financial statements. We believe that this should also refer to the presentation of the financial statements, since judgments regarding presentation as say debt or equity might have a significant effect on the financial statements.

Question 6: We agree that an entity should disclose 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. However, we suggest that the qualifier, “key” be deleted from paragraph 110. We believe that there should be disclosure about all sources of measurement uncertainty that could cause a material adjustment to carrying amounts within one year. The use of the term “key” seems unnecessary. We also note that the term “significant risk” is not further clarified and could be interpreted to be similar to “probable”, with all of the inherent difficulty in assessing what that term means that already exists in accounting literature.

We believe that the examples in paragraph 112(a) and 112(b) are essential to disclosing the nature of those assets and liabilities subject to measurement uncertainty and should be clearly required, rather than being presented as “examples”.

Other matters

Paragraph 12: Drafting. We suggest that sub-paragraphs (b) and (c) be interchanged, so that it is clear that the information required by sub-paragraph (c) must also be presented in a manner that provides relevant, reliable, comparable and understandable information.

We also believe that guidance needs to be provided as to what additional disclosures might be necessary. In this regard, we refer you to proposed material in the AcSB’s September 2002 Exposure Draft, *Generally Accepted Accounting Principles*, which states, “ … an entity provides sufficient information about the extent and nature of such transactions, circumstances or events that the effect on the financial statements is understandable. This would include the significant terms and conditions of such transactions, as well as the nature of such circumstances or events and their financial effects.”

Paragraphs 28-29: Drafting. We suggest that paragraphs 28 and 29 be drafted with the same structure. For example, paragraph 28 could be worded, “Assets and liabilities shall be offset when, and only when, a Standard permits or requires it.”

Paragraph 33: Should this also refer to Interpretations of an IFRS? Or, is it intended that an Interpretation may not permit or require comparative information not to be disclosed?

Paragraph 57: Paragraph 54 requires an asset to be classified as current when it is held primarily for trading purposes. We suggest that paragraph 57 should contain a similar requirement for liabilities held primarily for trading purposes. We note that IAS 39 contemplates financial liabilities, as well as financial assets, being held for trading.

Paragraph 76: The Basis for Conclusions, paragraph A17, explains that the line item ‘minority interest’ is the only difference between the line items “profit or loss” and “net profit or loss”. However, this is not clear from the Standard itself, which does not preclude other items from being included between “profit or loss” and “net profit or loss”. We suggest that this be made clear in the Standard.

IAS 2: Inventories

Responses to questions

Question 1: We 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. Even though there are tax considerations, we believe that the conceptual arguments for making this change, outlined in paragraphs A4 and A5 of the Basis for Conclusions outweigh any relationship to tax legislation.

Question 2: We agree that, within the context of IFRS, which generally require reversal of write-downs, it is appropriate to retain the requirement for reversal of write-downs of inventories when the circumstances that previously caused inventories to be written down below cost no longer exist, and to retain the requirement for the amount of any reversal of any write-down of inventories to be recognised in profit or loss.

Other matters

Paragraph 21A: We do not believe that this paragraph needs to be presented in italic type. It is merely an example of the application of paragraph 21.

IAS 8: Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

Responses to questions

Question 1: 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 has always been in use or the error had never occurred. However, regarding accounting policies, we note that paragraph 11 specifies that the initial adoption of a policy to carry assets at revalued amounts under IAS 16 or IAS 38 is not accounted for as a change in accounting policy in accordance with IAS 8. We have similar concerns regarding other changes in accounting policy that might adopt fair value measurement for the first time and question why IAS 16 and IAS 38 are singled out for this treatment. For example, an entity might choose to make a voluntary change in accounting policy to measure investment property at fair value. In these circumstances, it might also be inappropriate for an entity to make estimates of fair values for prior periods with the benefit of hindsight. We suggest that the prohibition of retrospective restatement of fair values be written in more general terms than solely by reference to IAS 16 & IAS 38.

Question 2: We agree with eliminating the distinction between fundamental errors and other material errors.

Other matters

Paragraph 6: We believe that an entity should only analogise to requirements and guidance in Standards, and Interpretations of Standards, dealing with similar and related issues, and Appendices and Implementation Guidance issued in respect of those Standards, when that analogy is consistent with the IASB Framework. Accordingly, we believe that paragraph 6(b) should be deleted and that the introduction to paragraph 6 should be redrafted to state "In making the judgement described in paragraph 5, management should adopt accounting policies that are consistent with the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses set out in the Framework for the Preparation and Presentation of

Financial Statements, while considering the following sources in descending order …". Otherwise, an entity is able to analogise to material in a Standard that may conflict with the Framework, thus increasing the use of accounting policies that conflict with the Framework.

We also note that paragraph 6(a)'s reference to "similar and related issues" might not be capable of consistent application. How dissimilar or unrelated does an issue have to be before one looks beyond paragraph 6(a)? Conversely, how far can the requirements and guidance in Standards be stretched to claim that the issue under consideration is similar or related? The AcSB has attempted to address this latter point by explaining, in its September 2002 Exposure Draft, Generally Accepted Accounting Principles, that "an entity would not rely on an extreme interpretation of a source that most parties would reject as resulting in an unfair presentation".

IAS 10: Events After the Balance Sheet Date

Paragraph 20: The first sentence seems unnecessary. It is not a requirement, but, rather, justification for the requirement in the second sentence. In addition, we do not believe that it is necessary to mention materiality, since this applies in all instances. Accordingly, we suggest that paragraph 20 be re-written to state "An entity shall disclose the following for each category of non-adjusting event after the balance sheet date: …" Alternatively, we suggest that the original wording of IAS 10 be retained, since that seems clearer than the proposed change.

Paragraph 22A: This paragraph refers only to the italicised paragraphs as becoming operative after the effective date. Since italicised and non-italicised paragraphs have equal authority, we believe that this should also cross-refer to the relevant non-italicised paragraphs. (Note: This comment may apply also to the effective date Sections of other Standards that the IASB proposes to improve).

IAS 15: Information Reflecting the Effects of Changing Prices

We agree that IAS 15 should be withdrawn.

IAS 16: Property, Plant and Equipment

Responses to questions

Question 1: We agree with the general principle 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 can be determined reliably. However, we are not convinced that the practical application of the principle has been sufficiently considered. We believe that significant additional guidance is necessary to implement the principle, including consideration of the income recognition consequences. We also believe that examples should be included as to how certain situations might be dealt with. These might include the exchange of surplus warehouse space in one location for surplus warehouse space in another location. (In this case, what is the fair value of the otherwise surplus space?). We also believe that the reliability of measurement criteria in paragraph 21A are insufficiently precise to ensure that consistency is achieved. On balance, while we concur with the objective, we believe that implementation issues require further consideration and it would be premature to make this change until additional guidance is developed.

Question 2: We agree with the general principle that all exchanges of intangible assets should be measured at fair value, except when the fair value of neither of the assets can be determined reliably. However, see our comments under question 1, above.

Question 3: We agree that depreciation of an item of property, plant or equipment generally should not cease when it becomes temporarily idle – for example, when it is used in a seasonal business (however, see our comment in the next paragraph). However, we believe that depreciation should cease when an item is retired from active use. At that time the asset is measured at the lower of carrying amount or recoverable amount. If the asset is measured at recoverable amount, any further depreciation will reduce the book value of the asset below recoverable amount and result in a gain on disposal. The effect if existing carrying amount is less than recoverable amount is similar. We do not believe that this would be a fundamental measurement change that would be beyond the scope of the Improvements project (as is alluded to in paragraph A11 of the IASB Basis for Conclusions). We understand that the IASB does not wish to base cessation of depreciation on management's intent to sell an asset. However, this might be avoided if the cessation of depreciation is based on the event of retiring the asset from active use, rather than the designation as intended for sale. Regular assessments of possible impairment would be sufficient to ensure that the asset value is not overstated.

We note that the proposed conclusion needs to be rationalised against the use of a "unit of production" method of depreciation, which would, effectively, result in no depreciation charge in periods when an asset is temporarily idle or retired from active use. We suggest that when an entity determines that the most appropriate method of depreciation is based on the use of the asset, then it is logical to stop depreciating the asset during periods when the asset is temporarily idle. However, when an entity determines that the most effective method of depreciation is based on the time of holding the asset (e.g., straight-line), then the entity has assumed that the asset deteriorates based on time, rather than use and, therefore, depreciation should continue during any idle period.

Other matters

Paragraphs 6 and 46: We agree that the residual value of an asset should be reviewed and adjusted at each balance sheet date, when necessary.

Paragraph 20B: We believe that this paragraph needs to be clarified to explain its application when the asset might be considered to have an unlimited useful life. For example, an entity that has contaminated land beneath a petrol station might take the view that the period of benefits obtained by incurring the costs is unlimited since it always plans to operate a petrol station on the site – even if the present station requires demolishing and rebuilding.

Paragraph 22C: It is not clear whether this paragraph applies only to required inspections (whether by law, regulation or some other necessity), or whether this also applies to all items of property, plant and equipment where an inspection is a practical requirement. When the inspection is required in order to obtain authorization to continue to operate the asset, it seems reasonable to capitalise the costs if the recognition criteria are satisfied. However, when the inspection is merely a practical requirement, such as the cost of regularly inspecting a fleet of cars to identify the need for routine maintenance, the case for capitalising the costs does not seem compelling. In addition, we suggest that the word ‘major’ be deleted. Other than materiality, which applies to all financial statement items, it is not clear why this term is needed.

Paragraph 23: The proposed modifications to this paragraph would appear to result in virtually all repairs to an asset being capitalised. The normal life-cycle of an item of property, plant and equipment consists of operations that lead to a reduction in the operating effectiveness of the item, followed by repairs that bring it back to its original operating effectiveness. Since the benchmark for the standard of performance is proposed to be changed to be that immediately before the expenditure was made, virtually all ongoing repairs to maintain the asset will increase the future economic benefits expected from the asset above that standard. We believe that the intent of this paragraph is to result in capitalising expenditure that enhances what the original asset can now accomplish. We believe that a distinction should be drawn between those ongoing repairs that would have been anticipated in determining the life of the asset in the first place (which should be expensed), and those that result in some extension to that life (which should be capitalized). We suggest that consideration be given to defining a “betterment” and specifying that betterments be capitalised and other expenditure recognised as an expense. In this regard we note that Canadian Standards define a betterment in Section 3061, paragraphs 26 and 27 as the cost incurred to enhance the service potential of an item, with an enhancement of service potential being defined as an increase of the previously assessed physical output or service capacity, associated lowering of operating costs, or extension of the life or useful life, or improvement of the quality of output. Merely maintaining the service potential is not a betterment – but is a repair and should be expensed. (This comment also applies to those instances where consequential changes are proposed).

Paragraphs 53A & 53(B)(b): As worded, these paragraphs suggest that compensation from third parties is recorded on a cash basis – “in the period in which it is received”. We believe that this should refer to the period in which the compensation is receivable. Otherwise, for example, an insurance settlement that is agreed upon, but not actually paid until after a reporting date could not be recorded until the subsequent reporting period.

Paragraph 59: We suggest that the last clause of the first sentence read, "… unless the asset's depreciable amount has been fully depreciated". "Allocation", might relate to future periods, as well as past periods.

Paragraph 64(e): We suggest that this be re-worded to read, "which asset's fair values were determined directly by reference to observable prices in an active market or recent market transactions and which were estimated using other valuation techniques." This would ensure that it was clear which assets were valued by which techniques. The existing words could result in a disclosure along the lines of, "Most assets were valued by reference to observable market prices in an active market. The others were estimated using other valuation techniques."

Paragraph 66: We believe that "encouraged disclosures" should be avoided wherever possible. We believe that the disclosure encouraged by paragraph 66(d) would be useful, but accept that it could be difficult to require this without re-exposure and would accept retaining this as an encouraged disclosure. However, we believe that the Board should state, either that the disclosures encouraged by sub-paragraphs (a), (b) and (c) are required, or delete them.

IAS 17: Leases

Responses to questions

Question 1: We 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. We also agree that the land element would generally be classified as an operating lease and that the buildings element would be classified as an operating or finance lease in accordance with the conditions in IAS 17.

Question 2: We agree, as an interim improvement for reasons of convergence and comparability with other IASs, that when a lessor incurs initial direct costs in negotiating a lease, those costs should be capitalised and allocated over the lease term. However, we concur that this issue needs to be revisited as part of the wider question of how to measure an asset on initial recognition. 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.

IAS 21: The Effects of Changes in Foreign Exchange Rates

Responses to questions

Question 1: 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 paragraphs 7-12 on how to determine what is an entity's functional currency.

Question 2: 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. We note that the proposals do not address how an entity would treat a change in presentation currency. There seem to be two possible alternatives available: (i) to view the choice of presentation currency as an accounting policy choice, for which a change would be accounted for retroactively; or (ii) to view the choice of presentation currency as dependent on economic conditions, with the result that a change in economic conditions justifying a change in presentation currency would result in prospective application. When the change in reporting currency is purely a result of an entity's choice, we believe that the first alternative is the appropriate one to be adopted. Paragraph 37 implies that this would be the resultant effect. However, we suggest that this be made clear in the Standard.

Question 3: 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 – i.e., we agree with the proposals in paragraphs 37 and 40.

Question 4: We agree that the allowed alternative to capitalise certain exchange differences in paragraph 21 of IAS 21 should be removed.

Question 5: 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.

IAS 24: Related Party Disclosures

Responses to questions

Question 1: We 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.

Question 2: We believe that the Standard should require disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or a wholly-owned subsidiary, regardless of whether those financial statements are made available or published with consolidated financial statements for the group to which the entity belongs. We believe that this information provides valuable additional insight into the exposures of the stand-alone parent or wholly-owned subsidiary that is obscured by the consolidated financial statements. We also believe that if separate financial statements purport to comply with IFRS, then it is a dangerous precedent to allow additional exemptions to those already permitted by IAS 27 and IAS 28.

Other matters

Paragraph 12: We disagree with the proposal to restrict disclosure of relationships irrespective or whether there have been transactions between those related parties, to parents and subsidiaries. We believe that it is also appropriate to disclose such relationships whenever control exists – for example, by an individual. Indeed, we note that paragraph 13 continues to state "it is appropriate to disclose the related party relationship where control exists".

IAS 27: Consolidated and Separate Financial Statements

Responses to questions

Question 1: We agree that a parent need not prepare consolidated financial statements if all the criteria in paragraph 8 are met. A similar exemption is permitted under Canadian GAAP in accordance with differential reporting provisions set out in Section 1590. Paragraph 11 in Section 1300 confirms that differential reporting options in Sections 1590, 3050 and 3055 are available to non-publicly accountable subsidiaries of a publicly accountable parent, subject to the unanimous consent of owners.[1]

Question 2: We agree that minority interest should be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity.

Question 3: We 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. We believe that this proposal makes sense for financial statements prepared in addition to consolidated financial statements. Often these statements will be filed with tax returns in certain jurisdictions. Use of the cost method would generally be compatible with tax requirements. We note that, for separate financial statements prepared under the exemption in paragraph 8 (that are the only financial statements of the entity), some would argue for permitting the use of the equity method for investments in subsidiaries and joint ventures, on the basis that the equity method provides users with profit and loss information similar to that obtained from consolidation. This is the choice made by the AcSB in the differential reporting provisions set out in Sections 1590 and 3055. However, we can accept that it is reasonable to require that if an entity wants to take advantage of the exemption it should not be permitted to select a "middle ground" of equity accounting.

Other matters

Paragraph 12A: We suggest that the IASB consider adding comments on the measurement of the investment in the circumstances described in this paragraph.

Paragraph 15A: We suggest that IASB consider adding a similar comment to that in CICA Handbook paragraph 1590.13 (b) that states, "exercises and conversions are only taken into

[1] Differences with Canadian differential reporting
1. A non-public subsidiary of a public parent may choose not to consolidate its own subsidiaries when its public parent also prepares non-consolidated financial statements, providing all relevant owners consent.
2. A non-public associate (joint venture) of a public parent may, with the unanimous consent of its owners, choose not to consolidate its own subsidiaries (Section 1300.11)

account when the economic cost is not so high as to make them unlikely for the foreseeable future."

Paragraph 30A: Drafting. This paragraph does not seem to logically follow from paragraph 30. We suggest moving paragraph 30A after paragraph 29 (and removing the reference to the equity method in the second sentence).

IAS 28: Accounting for Investments in Associates

Responses to questions

Question 1: 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. A fair value approach is more relevant for investments in associates held by venture capital organisations, mutual fund and similar organisations. CICA Handbook Section 3050, LONG-TERM INVESTMENTS, includes a similar provision that scopes out investments in associates held by "companies that account for security holdings at market values in accordance with the practices in their industry".

Question 2: 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.

IAS 33: Earnings per Share

Responses to questions

Question 1: 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. The presumption may be rebutted if the issuer has by past practice or by stated policy created a valid expectation that it will settle in cash and not by issuing shares. CICA Handbook Section 3500 includes provisions similar to paragraphs 51-53. The purpose of diluted EPS is to reflect the historical performance of the enterprise, and therefore it is logical to consider past experience or stated policy when presenting EPS figures.

Question 2: 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 that a year-to-date weighted average of the number of potential ordinary shares weighted for the period they were outstanding (i.e. without regard for the diluted earnings per share information reported during the interim periods).
- 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).

However, we believe that these principles need to be stated explicitly in Appendix A. As the draft stands, the principles have to be inferred from Appendix B, examples 7 and 12.

Other matters

Paragraph 10: We suggest that this should refer to "preference shares classified as equity" (emphasis added).

Paragraph 12: We suggest that this paragraph should specify, *"an adjustment to profit or loss is required for preference share dividends, regardless of the form of payment"*.

Paragraph 12 (b): We suggest adding, “cumulative preferred dividends with restrictions are deducted only to the extent that they are earned[2]”.

Paragraph 30: We suggest referring to royalty agreements in addition to non-discretionary employee profit-sharing plans.

Paragraph 34: We suggest specifying that the last sentence encompasses circumstances where the holder has several conversion alternatives and also circumstances where an issuer’s option and a holder’s option are outstanding at the same time.

IAS 40: Investment Property

Responses to questions

Question 1: 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, paragraphs 27-49.

Question 2: We agree that a practical accommodation is appropriate for a lessee that classifies a property interest held under an operating lease as investment property to account for the lease as if it were a finance lease. However, we do not believe that the rationale for this accommodation is well explained in the Basis for Conclusions. For example, paragraph A6 states, “the Board proposes that the full amount of the lessee’s asset is recognised and revalued, regardless of the pattern of lease payments”. This would seem to be an acceptable solution – assuming that “revalued” = “fair value”. However, the following sentence of paragraph A6, and the proposal, then states, “This is achieved by accounting for the lease as if it were a finance lease”. We do not believe that this is the case, since IAS17.19 requires that subsequent to initial recognition the asset is depreciated and not revalued, with the result that it would not be carried at fair value.

[2] The sentence is in FAS 128.

Question 3: We 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.

Consequential amendments

IAS7.26: Delete the word “reporting” in the second line.

IAS22.97: The words “they are material and” should be deleted. Materiality considerations apply to all financial statement items. A similar point applies to the proposed amendment to IAS 37.75.

IAS 31.2: The amendment to the definition of the equity method should refer to the “profit or loss of the jointly controlled entity” (emphasis added) in the last line.

IAS38.7: At the beginning of the third line of the definition of residual value of an intangible asset, delete the word “to”.

IAS 38.60: The insertion of “and only when” seems unnecessary in this circumstance, since the paragraph specifies the only circumstances when subsequent expenditure cannot be recognised as an expense.

We would be pleased to elaborate on these points in more detail if you so require. If so, please contact Paul Cherry, AcSB Chair at +1 416 204 3456 (e-mail paul.cherry@cica.ca), Ron Salole, Director Accounting Standards at +1 416 204-3277 (e-mail ron.salole@cica.ca), or Ian Hague, Principal Accounting Standards at +1 416 204-3270 (e-mail ian.hague@cica.ca).

Summary of responses

The following provides a summary of our responses to the questions in the Invitations to Comment. Please see our detailed response for further details. Also, please note that our detailed response raises other matters related to a number of the proposals that do not directly relate to the questions asked in the Invitations to Comment.

Question #	Agree	Disagree	Other
IAS 1 Q1	√		
IAS 1 Q2	√		Redrafting necessary to achieve objective.
IAS 1 Q3	√		
IAS 1 Q4	√		
IAS 1 Q5	√		Further guidance needed.
IAS 1 Q6	√		Clarification needed.
IAS 2 Q1	√		
IAS 2 Q2	√		
IAS 8 Q1	√		
IAS 8 Q2	√		
IAS 10	√		With drafting suggestions.
IAS 15	√		
IAS 16 Q1		X	Agree with principle, but believe implementation guidance is needed.
IAS 16 Q2		X	Agree with principle, but believe implementation guidance is needed.
IAS 16 Q3		X	While agree that depreciation should continue when asset becomes temporarily idle, disagree when retired from active use.
IAS 17 Q1	√		
IAS 17 Q2	√		
IAS 21 Q1	√		
IAS 21 Q2	√		
IAS 21 Q3	√		
IAS 21 Q4	√		
IAS 21 Q5	√		
IAS 24 Q1	√		
IAS 24 Q2		X	

IAS 27 Q1	√		
IAS 27 Q2	√		
IAS 27 Q3(a)	√		
IAS 27 Q3(b)		X	
IAS 28 Q1	√		
IAS 28 Q2	√		
IAS 33 Q1	√		
IAS 33 Q2	√		But, state principles clearly in Appendix A, rather than having to infer from examples.
IAS 40 Q1	√		
IAS 40 Q2	√		But, Basis needs to be clearer.
IAS 40 Q3	√		