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Institute of Certified Public Accountants of Singapore
INCORPORATED BY THE ACCOUNTANTS ACT (CHAPTER 2A)

13 September 2002

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

(By post and email: CommentLetters@iasb.org.uk)

Dear Sirs

RESPONSE TO THE EXPOSURE DRAFT OF PROPOSED IMPROVEMENTS TO INTERNATIONAL ACCOUNTING STANDARDS

The Institute of Certified Public Accountants of Singapore appreciates the opportunity to comment on the *Exposure Draft of Proposed Improvements to International Accounting Standards* (IASs) published by the International Accounting Standards Board (IASB) in May 2002. Our comments are divided into General Comments and Responses to Specific Questions set out in the "Invitation to Comment" section at the front of each Standard where we have a different view. We agree with all other specific questions. Our comments are given in the context of the IASB's *Framework for the Preparation and Presentation of Financial Statements* considering, *inter alia*, the recognition and measurement criteria therein, whether alternatives are permitted and the adequacy of requirements or guidance.

General Comments

We strongly support the work of the IASB in its leadership efforts to provide high-quality global accounting standards that can be the basis for convergence with national standard setters and regulators around the world. We generally agree with the IASB's objectives in the improvements project to reduce or eliminate alternatives, redundancies and conflicts within existing IASs.

Undue cost or effort

The IASB has introduced the concept of "undue cost or effort" in several of the standards. This term seems to be the language used to replace the term "impracticable" used in the standards currently. The replacement of a term which could be interpreted very differently and subjectively, with another term which is equally open to interpretation, would not help in ensuring consistency in application of the standard. We urge the IASB to consider providing guidance as to what would constitute "undue cost or effort".

Responses to Specific Questions

<u>*IAS 1 – Presentation of Financial Statements*</u>

Question 1
Do you agree with the proposed approach regarding departure from a requirement of an International Financial Reporting Standard or an Interpretation of an International Financial Reporting Standard to achieve a fair presentation (see proposed paragraphs 13-16)?

The Institute does not agree with the proposed approach. The true and fair override should be retained to ensure that Accounting Standards are applied in a manner that would not produce misleading financial statements regardless of whether a national regulatory framework permits or disallows the departure from accounting standards. We do not support the proposal not to make adjustment to financial statements (which are necessary) where true and fair override is prohibited by local/national regulations. Disclosure to reduce the perceived misleading aspects of compliance with the accounting standards does not remedy a misleading set of primary financial statements. To ensure consistency in the application of IAS and comparability of IAS financial statements, national legislation should not be allowed to dictate how accounting standards should be applied.

Question 2
Do you agree with prohibiting the presentation of items of income and expense as 'extraordinary items' in the income statement and the notes (see proposed paragraphs 78 and 79)?

The Institute agrees with prohibiting the presentation of items of income and expense as 'extraordinary items' on the grounds that this will improve comparability. With the restrictive definition and illustration of this term in IAS 8, countries like Singapore, which are generally not affected by natural disasters like tremors, tidal waves or typhoons and which do not have incidences of asset expropriation, such items figure minimally in financial statements. It should be noted that 'extraordinary items' are now not defined either in the exposure draft of revised IAS 1 or in the exposure draft of revised IAS 8 whereas previously, this term was defined in IAS 8. Consequently, the IASB may wish to consider incorporating a definition of this term for completeness.

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)?

The Institute disagrees with this proposal on the basis that it may be onerous for preparers of financial statements to provide such disclosures, however, from the conceptual viewpoint, where such disclosures provide more relevant and useful information for users of financial statements, such disclosures should arguably be made.

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)?

The Institute disagrees with this proposal on the basis that it would be an onerous and impracticable task. However, specific guidance should be given as to the extent of risk factors which should be disclosed. Otherwise, disclosures like the ones being proposed could become very generic and serve very little use.

Other comments

IAS 1 permits entities to present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity. Where a classification by function is used, the entity is nevertheless required to disclose additional information on the nature of expenses. The net effect of this is that entities are to present expenses by their nature. This appears to be inconsistent with the amendment proposed to IAS 2 where previously both the FIFO and LIFO methods were permitted cost formulas with disclosure of additional information when the latter method was used to reconcile it to the former.

IAS 2 – Inventories

Other comments

IAS 2 provides some guidance on the cost of inventories of service providers. The IASB may wish to consider providing additional guidance on how inventories of service providers may be defined and clarifying how, for example, service providers like a manufacturer's representative or an insurance sales entity, both of which derive revenue in the form of commissions on sales, should inventorise relevant costs.

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

Other comments

The proposed revised IAS 8 articulates the hierarchy of IASB pronouncements and authoritative and non-mandatory guidance. We are of the view that it would be more appropriate for the relevant paragraphs on the hierarchy to be incorporated in the Preface to Statements of International Accounting Standards or in the proposed revised IAS 1.

Paragraph 19 of IAS 8 should not be made mandatory but should continue to encourage the disclosure of the nature of a future change in accounting policy in view of the impracticability and onerous nature of such disclosure.

IAS 10 Events After the Balance Sheet Date

Comments

The Institute agrees with the proposal to revise paragraphs 11 and 12 to indicate that if dividends are declared after the balance sheet date, an entity should not recognise those dividends as a liability at the balance sheet date on the basis that this would be consistent with the recognition criteria of the IASB Framework and IAS 37.

Paragraph 13 of the 10 states that an enterprise should not prepare its financial statements on a going concern basis if management determines after the balance sheet date either that it intends to liquidate the enterprise or to cease trading, or that it has no realistic alternative but to do so. This would imply making provisions for closure and liquidation cost when preparing the financial statements. This requirement appears to be in conflict with IAS 37.

The IASB should consider providing specific guidance in the situation where accounts are not prepared on the going concern basis by virtue of paragraph 13 of IAS 10.

IAS 17 – Leases

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.

The Institute agrees, from the conceptual viewpoint, with the proposal that when classifying a lease of land and buildings, the lease should be split into the two elements of a lease of land and a lease of buildings. However, from the practical viewpoint, this may be difficult to achieve and could lead to varying treatment of such leases. We would like to propose that IAS 17 permit the treatment of leasehold land and buildings as a finance lease when the leasehold building component is deemed to be a finance lease under IAS 17. The basis for this is that leasehold land is necessarily "attached" to the building and hence the payment for acquiring the leasehold land on which the building is constructed is a directly attributable cost of the leasehold building and the lease transaction (see also our response to question 2 below). The IASB may wish to note that in Singapore, leases of land involve terms that can be as long as 999 years. Consequently, treating 999-year leasehold land as an operating lease may not reflect economic reality as such an item is akin to freehold land.

Question 2
Do you agree that when a lessor incurs initial direct costs in negotiating a lease, those costs should be capitalized and allocated over the lease term? Do you agree that only incremental costs that are directly attributable to the lease transaction should be capitalized in this way and that they should include those internal costs that are incremental and directly attributable?

The Institute agrees that when a lessor incurs initial direct costs in negotiating a lease, those costs should be capitalized and allocated over the lease term and that only incremental costs that are directly attributable to the lease transaction should be capitalized in this way and that they should include those internal costs that are incremental and directly attributable for the reasons as enunciated in the Basis for Conclusions. The IASB may wish to consider providing some examples of incremental internal costs directly attributable to a lease transaction for guidance.

IAS 28 – Accounting for Investments in Associates

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)?

The Institute agrees 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. However, the IASB may wish to consider providing guidance on situations where, for example, such other interests may be secured.

We shall be pleased to discuss our comments and views with the IASB or its staff. Please contact Mr Ramchand Jagtiani, Deputy Director of the Technical Division of the Institute should you require further information.

Yours sincerely,

Janet Tan
Executive Director

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