The South African Institute of Chartered Accountants
Die Suid-Afrikaanse Instituut van Geoktrooieerde Rekenmeesters

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Sir David Tweedie
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Dear David

EXPOSURE DRAFT ON PROPOSED IMPROVEMENTS TO INTERNATIONAL ACCOUNTING STANDARDS

In response to your request for comments on the proposed improvements to International Accounting Standards, I attach the comment letter prepared by the South African Institute of Chartered Accountants (SAICA).

We would like to thank you for the opportunity to comment. Please do not hesitate to contact me should you wish to discuss any of our comments.

Yours sincerely

Linda de Beer
Technical Director

cc: Peter Wilmot (Chairman of the Accounting Practices Board)
Pat Smit (Chairman of the Accounting Practices Committee)

#19545

GENERAL COMMENTS

1. We agree with the Board's decision to change certain terminology in the existing standards (changing the words should to shall and enterprise to entity).

2. We are concerned, that while the aim of the project is to reduce alternatives, redundancies and conflicts as well as to make improvements to the standards, some of the proposed improvements result in fundamental changes to the principles of some standards. In particular, we are concerned with the proposed amendments to IAS 16. In our view, such fundamental amendments should rather be addressed in a separate project.

3. It may be useful to provide additional guidance on application of the term undue cost and effort. Although this concept is addressed in the amendments to IAS 8, the application to other IASs is unclear. The term undue cost or effort can be interpreted as less stringent than impracticable, which could result in greater leniency regarding compliance with the requirements of the IFRS's. We believe that exemption from requirements in the IFRS's should only be granted in extremely rare cases.

4. It may be useful to provide additional guidance on the application of the term well-established practice. Industry practices differ regionally, or even in particular countries. The meaning of this concept is therefore unclear.

.05 We believe that there will be some practical problems with regard to the transitional provisions in respect of some of the proposed amendments. Most of the standards require retrospective adoption of the amendments. In some cases, this may not be practical, for example (this list is not exhaustive):

- IAS 17 – the separation of land and buildings at inception of a lease;
- IAS 16 – annual assessment of the residual value of items of property, plant and equipment;
- IAS 21 – the requirement to treat goodwill and fair value adjustments as assets and liabilities of the foreign subsidiary; and
- IAS 40 – practical difficulties in retrospective classification of a property interest that is held by a lessee under an operating lease, as investment property.

6. In many cases, presentation and disclosure requirements have been deleted from certain standards because they have been included in IAS 1. We believe that it is useful to include these requirements in both standards, as the duplication is not seen as a problem where it results in greater ease of reference for the user.

7. We encourage the IASB to actively continue its projects on the following topics, as they have been identified as significant areas of improvement in this project:

- leases;
- revenue recognition;
- property, plant and equipment; and
- measurement and recognition of related party transactions.

IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS

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)?

Yes, in particular we strongly support the rebuttable presumption that if other entities in similar circumstances comply with a given requirement, the entity's compliance with that requirement would not be so misleading that it would conflict with the objectives outlined in the Framework. It may, however, still be useful to emphasise that such a departure should only occur in extremely rare circumstances.

We do however have concerns with the reference made to the requirements of the regulatory frameworks. We believe standards should be drafted independently of regulatory frameworks, as it may encourage regulators to influence the standard setting process by way of local legislation by either amending or prohibiting compliance with certain standards, which is an issue that should be dealt with for the sake of completeness, but which we would not support. In addition this approach differs from that contained in the present paragraph .14 of IAS 1, which states that conflicting national requirements are not a reason to depart from a standard. Accordingly we suggest references to regulatory frameworks be deleted. It is suggested, however, that if these requirements are retained, it should also include a requirement by management to state that in their opinion the financial statements that are prepared in accordance with the standards do not achieve fair presentation.

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)?

While we agree in principal with the proposal, we do not believe it is dealing with the real issue involved, which is whether the standard precludes variations of this theme being used in the preparation of financial statements. There is nothing to stop preparers from designating items as abnormal, exceptional, etc. and placing these in the same position in the income statement as where extraordinary items were shown. It is therefore suggested that paragraph .76 should not allow any additional income and expense items to be inserted in the income statement after the tax expense.

Moreover, if the concept of extraordinary items is eliminated, any references to the ordinary course of the business or ordinary activities become meaningless.

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. In terms of IAS 10, an adjusting event after balance sheet date is one that provides evidence of conditions that existed at balance sheet date. An agreement to refinance or reschedule payments of a long-term financial liability that is due to be settled within twelve months of the balance sheet date does not alter the condition that existed at balance sheet date. It should therefore continue to be classified as current. In terms of this, we believe that the standard should require disclosure of such refinancing in terms of IAS 10 as a non-adjusting event after the balance sheet date.

An opinion was held that this is inconsistent with the proposed amendments to paragraphs .62 to .64. The proposed amendments allow a period of grace where the entity has breached a condition of its loan agreement, whereas paragraph .60 disallows the classification as a long-term liability, where the company has entered into an agreement after balance sheet date to refinance or reschedule payments. As with other items, the classification and measurement should reflect conditions existing at balance sheet date, but based on all the information available up to date of issuing the accounts. Thus, a refinancing agreement or an agreement to reschedule payment, if under negotiation at balance sheet date, should result in the liability being classified as long term if such agreement is finalised before date of issue.

Question 4 (a)
Do you 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 (see proposed paragraph .62)?

Yes, we agree that such agreement between the lender and borrower after the balance sheet date is a non-adjusting post balance sheet event in accordance with the principles in IAS 10. The standard should refer to the principles in IAS 10 and should also refer to the requirement in IAS 10 to disclose the agreement with the lender as a non-adjusting event after the balance sheet date.

Question 4 (b)
Do you agree that if a lender was entitled to demand immediate repayment of a loan because the entity breached a condition of its loan agreement, but agreed by the balance sheet date to provide a period of grace within which the entity can rectify the breach and during that time the lender cannot demand immediate repayment, the liability is classified as non-current if it is due for settlement, without that breach of the loan agreement, at least twelve months after the balance sheet date and:

- *The entity rectifies the breach within the period of grace; or*
- *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 that, in terms of the principles in IAS 10, the rectification of the breach provides additional information for a situation that existed at balance sheet date. However, the breach should be rectified before the authorisation of the financial statements.

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)?

We support the disclosure of information that will assist users of financial statements to make better-informed decisions. However, some of our commentators were of the opinion that the requirements proposed in the paragraphs .108-.109 are vague and would not result in meaningful and relevant disclosures.

We are of the opinion that such disclosures are important. It is therefore suggested that the Board considers expanding the disclosure requirements perhaps also in other standards with these specific additional disclosure requirements, rather than including a blanket disclosure requirement in IAS 1. Else, the disclosure requirement in IAS 1 should be expanded and made more specific.

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)?

While in principle we support the proposed disclosures, we do not support the form suggested. We believe they are more appropriately dealt with in a standard dealing with management discussion and analysis disclosures. Secondly, the proposed disclosures seem to contradict with paragraphs .07 to .09, which states these types of disclosures, are outside the scope of the standards.

We suggest that consideration be given to combining the requirements in paragraphs .108 and .110. It is felt that while key judgements (paragraph .108) are not the same as key assumptions (paragraph .110), the separation of the two could prove to be difficult in practice and that it was not necessary to split them.

It is questioned what should be included in the accounting policy and what should be disclosed by way of note. If key assumptions form part of the accounting policies then difficulties could be encountered in the future if there were any changes in such judgements/policies – for example, could a change in judgement be considered to be a change in accounting policy? Key judgements are considered to be useful information to users, but should be considered to be part of the note to the line item to support the calculation of the figure and not part of the enterprise's policies.

The level of disclosure is also considered to possibly create practical problems in deciding what should or should not be disclosed and is likely to lead to boilerplate wording. In addition, it is not clear whether the key assumptions are just those included in preparing the financial statements seeing that, for example, the suggested disclosures noted in paragraph .113 might relate more to future cash flows than assumptions used to determine the carrying amount of assets and liabilities.

Additional comments

1. We noted that paragraph .06 of the current text of IAS 1 (that confirms the responsibility for the preparation and presentation of financial statements) has been deleted in the proposed amended IAS 1. In our view this is not an improvement to the standard and we are of the opinion that the paragraph should be reinstated.

2. Paragraph .08 describes supplementary information that is presented outside the financial statements. It should be made clear that when entities present pro-forma financial information, this does also not form part of the components of financial statements.

3. The wording in paragraph .10 indicates that the application of IFRS's and Interpretations is presumed to result in financial statements that achieve a fair presentation. This leaves the impression that the presumption can be rebutted. We believe that this contradicts paragraph .12 that states that in virtually all circumstances fair presentation is achieved by compliance with IFRS and Interpretations.

4. In the proposed version of the Standard, the existing paragraph .12 has been omitted: Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.

   This paragraph fits well into the Standard's considerations of the issues around a fair presentation and we suggest that it is included in the revised version of the standard.

5. The wording of paragraph .26 of the current IAS 1 should be reinstated as it highlights the difference between the cash basis of accounting and the accrual basis of accounting. Furthermore, the wording of paragraph .21 (in improved IAS 1) does not correspond with the definition of the accrual basis of accounting per the Framework.

   We believe that the reference to the Framework is not sufficient when explaining the recognition criteria for the elements of the financial statements under the accrual basis of accounting, as certain older standards, e.g. IAS 20 and IAS 17, set out definitions that may not be wholly consistent with the Framework. We suggest the following wording: "…income and expenses in accordance with the requirements of IFRS, or otherwise when they satisfy the definitions and…".

6. Consideration should be given to require separate line items for the assets and liabilities of a discontinuing operation, with items in these lines being excluded from the lines they would otherwise be included in. This would separate the assets and liabilities of the discontinuing operation completely from those of continuing operations. In our view it is also desirable to provide disclosure on the effect of acquisitions.

7. Offsetting in paragraph .28 should include a specific requirement that set-off needs to be disclosed in the notes to the financial statements, i.e. the gross amounts that have been netted off should be shown.

8. Paragraph .50 could be interpreted to mean that items of property, plant and equipment should be split between current and non-current assets. We do not believe that this is the intention, and suggest that the requirement be made clear.

9. It is considered that the definition of current assets will cover all assets that are to be disposed of in the next 12 months, including property, plant and equipment or other non-current assets that will be disposed of. It is questioned whether this was the intention of this definition. If so we believe that guidance should be given as to how the current amount is to be determined and this should be specifically stated. For example, does it include the expected amortisation for the following year? Also, while entities may historically replace property, plant and equipment each year, the likely amount to be replaced is unlikely to be determined in advance. With paragraphs .57 - .63 providing a fair amount of guidance for the split between current and non-current liabilities, we believe a similar amount of guidance should be provided for assets.

10. Paragraph .54 and .57 contradicts paragraph .70 of IAS 12, which requires deferred taxes to be shown as non-current assets or liabilities, because it is possible for the deferred taxes to be realised within one year of the balance sheet date. Accordingly it is suggested that IAS 12 be changed to be consistent with the requirements in IAS 1.

11. Paragraph .54 lists assets held primarily for trading purposes as current assets. We believe that paragraph .57 should similarly list liabilities held primarily for trading purposes as current liabilities.

12. The paragraph .69 requirement that different classes of assets that use different measurement bases should be presented as separate line items is impractical.

13. Paragraph .71(d) requires provisions to be disaggregated. This wording should be amended so that the focus is not placed on employee benefit costs only.

14. For completeness, the wording in paragraph .71 should include: "…gains or losses on remeasuring the hedging instruments attributable to effective cash flow hedges…".

15. Paragraph .76(a) requires the disclosure of revenue on the face of the income statement. It is uncertain whether this is the total gross revenue of the entity as considered by IAS 18 (including interest, dividends, royalties) or only the turnover (i.e. main source of income) of the entity. If this is total revenue then the gross profit of a manufacturer will be distorted where the income statement starts with revenue, as defined by IAS 18, and then deducts cost of sales, because the gross profit will include interest income. This standard should clarify this disclosure on the face of the income statement seeing that different entities interpret this requirement differently.

16. Proposed paragraph .76 requires disclosure of (f) profit or loss and (h) net profit or loss. The Standard does not provide further guidance on the definitions of these two items, specifically what the difference is between the two items. We understand that the only difference between the two arises due to the minority interest line item. We are, however, uncertain whether an entity may present other items after profit or loss, but before net profit or loss (i.e. in the same place as extraordinary items were previously presented).

17. Disclosure of minority interests on the face of the income statement is inconsistent with the recognition of minority interests as equity. Some commentators had reservations regarding the presentation of minority interests in equity.

18. It is uncertain what items may be disclosed under finance costs on the face of the income statement and whether such finance costs should / may be presented net of finance income received. It may be useful to explain the principle behind disclosure of finance costs on the face of the income statement. This would provide guidance on what should be aggregated in this line.

19. The division of the income statement into operating and financing section is useful and provides important information about an entity's activities. Under the proposed standard that division seems to be eliminated.

20. The draft does not provide guidance on whether the presentation of subtotals such as earnings before interest, taxes, depreciation and amortisation and earnings before interest and taxes are permitted. Although these issues are expected to be dealt with as part of IASB's current project on reporting financial performance we believe that clarification in IAS 1 would be useful given the current focus on appropriate and inappropriate performance measures.

21. It is not clear whether the order of items specified in paragraph .76 is mandatory. For example, can the share of the after tax profit or loss of associates and joint ventures accounted for using the equity method be reported after the tax expense? This should be clarified.

22. The lack of clarity is further compounded by the deletion of the Appendix examples. We have found the illustrative examples, as currently included in the appendix to IAS 1, useful specifically the two allowed formats for the statement of changes in equity. The inclusion of such illustrative examples results in an element of consistency and guidance without creating rules.

23. We believe that it is misleading and dangerous to describe all items of income and expense as being from ordinary activities. The reason for this is that paragraph .19 requires an entity to consider a wide range of factors in determining whether it is a going concern; and so it is dangerous to say that an entity was liquidated because of factors it could not reasonable foresee and at the same time to state that the financial effect of these unforeseen circumstances should be described as ordinary; alternatively it might mean that paragraph .19 should be interpreted so widely that it will not be possible for management to conclude that the entity is likely to be a going concern. Accordingly while items might not be described as extraordinary, it does not mean everything is ordinary. This approach suggests items cannot be described as abnormal or exceptional which we question.

24. The last sentence in paragraph .89, namely In paragraph .88, employee benefits means the same as in IAS 19, Employee Benefits should be deleted: we note that no other terms taken from other standards are expanded on.

25. IAS 33 only deals with earnings per share. No standard deals with dividend per share (DPS). If this is a required disclosure, then either IAS 1 or IAS 33 should deal with the calculation of DPS. Currently the disclosures vary, including DPS

based on the declared dividend per share for the year, without it being clear whether the DPS should be adjusted for share transactions that do not affect the resources of the enterprise (e.g. share split, rights issues at below market prices, etc.).

26. The requirements in paragraph .102(a) and (d) of the current IAS 1 (disclosure of country of incorporation, number of employees, etc.) should be reinstated. In our opinion disclosure of the number of employees provides useful information, especially in situations where operating functions have been outsourced.

27. Proposed paragraph .90 requires the entity to disclose dividends recognised during the period. Proposed paragraph .116 contains further required disclosures in respect of dividends. In order to prevent the further disclosure requirements being overlooked it is suggested that the requirements of paragraph .116 be moved to or near paragraph .90.

IAS 2 – INVENTORIES

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?

Yes.

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. It is however not clear as to whether the write-downs for the year or the write-down applicable to the inventory in the balance sheet should be disclosed. If write-downs during the year are expected to be disclosed, the standard should consider the practical difficulties that may be encountered when an entity follows a periodic inventory costing system.

The same applies to reversals of write-downs. It can be calculated for items that are in the balance sheet for consecutive years, but it might be impractical to calculate the amount for inventories sold during the year.

Additional comments

1. Under paragraphs .01(c) and .03, agricultural and forest products, and mineral ores are scoped out if they are carried at net realisable value in accordance with well-established industry practices. We are concerned that such exclusion will allow certain entities to carry their inventories at fair value, with no regard to the related cost. Current treatment by dealers of commodities and mineral ores may more closely reflect fair value, rather than net realisable value. An example would be a gold mine valuing its gold inventories at market price. Is this the intention of the Standard? If this is the intention of the standard, we believe that the example quoted in paragraph .03: "…when an active market exists and there is a negligible risk of failure to sell" should be reinforced and set out as pre-condition for the exemption. In addition, it may be useful to provide additional guidance of criteria for an active market.

2. We would also appreciate more guidance about what constitutes well-established practices in certain industries. Industry practices differ regionally, or even in particular countries.

3. It is suggested that the last sentence of paragraph .16 should not be included in this standard. This standard should rather refer the measurement of inventories of a service provider to IAS 11 and IAS 18. It appears this sentence requires a treatment that differs from that expected from IAS 18.20, which requires profits to be recognised on a percentage of completion basis.

4. This standard only deals with the measurement of inventories. Unlike other standards, it does not address the recognition criteria in respect of inventories.

5. In addition the standard does not give any guidance in instances where inventory is acquired with deferred payment terms. This concept is addressed in other IASs regarding the acquisition of assets.

6. Clarity regarding the meaning of normal credit terms will also be welcomed.

IAS 8 – NET PROFIT OR LOSS FOR THE PERIOD, FUNDAMENTAL ERRORS AND CHANGES IN ACCOUNTING POLICIES.

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)?

We agree that changes in accounting policies should be made retrospectively.

Question 2

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

We agree with the proposal to eliminate the distinction between a fundamental error and other material errors, as in practice, this distinction requires significant judgment which may not result in consistent answers between different entities.

A view was held that it is uncertain whether it would be appropriate to adjust for all errors retrospectively. It is likely that this could result in retrospective changes on a yearly basis. This would make reliance on financial information very difficult if an entity continuously makes retrospective changes to its financial statements. This may also result in manipulation of financial results as it may be difficult, in practice to distinguish between errors and changes in accounting estimates. It was felt that retrospective adjustment of errors does not necessarily provide useful information. Decisions would have already been made based on an entity's previously published/issued results. Subsequent identification of an error, which occurred during that period, cannot change such decisions that have already been made, but should be taken into account when looking at financial information during subsequent periods.

Additional comments

1. The reference in paragraph .02 to IAS 12 is queried seeing that IAS 12 does not require the disclosure of taxes relating to errors and changes in accounting policies. Accordingly it appears that this standard should deal with the issue or that IAS 12 needs to be amended.

2. The definition of prospective application implies that the current year opening balance may be restated if it is affected by the change in an accounting policy. A change in an accounting estimate (e.g. change in estimated useful life) generally does not involve an adjustment of the opening balance sheet. Paragraphs .24-.30, which describe accounting treatment of a change in accounting estimate, also refer to changes in current and future periods. Therefore, we believe that the drafting definition of prospective application (paragraphs .21, .27 and .28) needs to be revised to clarify when prospective application permits or requires adjustment of the current year opening balance sheet. Also, there is a need to confirm that changes in accounting policy (whether as a result of adoption of a new standard or voluntary changes) should be made only as at the beginning of the financial year unless specific transition provisions require differently. In contrast, changes in accounting

estimates should be made as a timely response to changing circumstances and therefore not be restricted to the beginning of the financial year.

3. We suggest that consideration be given to requiring the choice of accounting policy to be the most appropriate treatment for fair presentation and not just an acceptable treatment.

   We noted that the IASB has introduced appendices that do not form a part of the standard and implementation guidance to the hierarchy. We support both clarifications of the status of these documents and the proposed ranking in the IASB hierarchy.

4. The disclosures in respect of adjustments in paragraph .15(b) and (c) as well as .23 (b) and (c) should be clarified. It is not clear whether the adjustment only relates to the effect on each year's net profit or to the equity at the end of each year.

5. It is unclear what circumstances paragraph .16 describes, for example, whether it refers to the situation where restatement of the opening balance is not required. We suggest clarifying the wording.

6. We believe paragraph .19 should not just require disclosure of the effect on the balance sheet, but also the income statement.

7. Paragraphs .20 - .23 should require the disclosure of an explanation as to why there has been the change in policy if the decision was made after interim financial statements were issued using the previous accounting policy. Consideration should also be given to disclosing the effect that such a change in policy would have had on the interim financial statements, where these are issued.

8. In our view paragraph .21 should require comparatives to be restated unless there was undue cost or effort, rather than stating that comparatives need not be restated.

9. An explanation of the undue cost or effort should be disclosed. If this is not disclosed it will be difficult to assess whether the undue cost or effort is reasonable or not, particularly as it impairs the comparability of information.

10. Where a change in accounting estimate relates to an item recognised directly in equity, for example, the change in fair value of an equity security, such change in estimate should be recognised in equity. Paragraph .27 should be amended to reflect the fact that changes in accounting estimates are not always recognised in profit or loss for the period.

11. Paragraph .28 has scope for improvement to clarify whether the cumulative catch up method is acceptable or not. At present the standard only states the amount is to be included in the current year income statement, but is not specific whether the current year item must be determined as if the new basis is applied from the beginning of the year based on the carrying value at that date (although by implication this is the approach to be used), or from the date of initial recognition (in which case the current year item includes a prior year amount). We believe that a catch-up method should be prohibited (as this method could result in appreciation of assets in cases where the re-assessed useful life exceeds the original estimated life).

12. The standard does not sufficiently deal with the tension between an error and a change in estimate, in the same way as a difference between a change in accounting policy and a change in estimate is dealt with in paragraph .26. This is particularly relevant where key assumptions and judgments as required to be disclosed in terms of IAS 1 are regarded as leading to errors. This standard may lead to an even greater abuse by preparers of financial statements in terms of this classification.

13. We agree that comparatives should be restated except in the rare circumstances when it genuinely is too costly or time consuming to achieve. We therefore recommend the wording be strengthened to emphasise that in the vast majority of cases this exemption is not expected to be applied.

IAS 10 – EVENTS AFTER THE BALANCE SHEET DATE

Additional comments

1. In paragraph .08 the word resolution has been replaced with the word settlement. We are uncertain why this has been done, and whether it was done to change the meaning of the sentence.

2. We are concerned that the amendment to IAS 10, with respect to dividends, does not have a conceptual basis, but is rather a rule that has been established. While we support the proposed conclusion, it may be more helpful to set out the general principle first i.e. that IAS 37 applies to determine whether an obligation exists in respect of dividends and then to illustrate this with the example of dividends declared after the balance sheet date.

   IAS 37 requires that the present obligation be either a legal or a constructive obligation. We are concerned that the application to dividends may be construed to be based purely on whether you have a legal obligation or not. The Board must decide and make clear the principle to be applied as to whether a constructive obligation model should be applied. A similar principle is needed as to whether economic compulsion should be considered when determining whether or not to provide for dividends.

   The following specific situations may be addressed:
   An entity has a historical dividend cover of 2 and prior to year-end, the directors decide that they will continue with this trend. Does this give rise to a constructive obligation?

   Prior to year-end, the directors of an entity declare 40% of the profit after tax as a dividend (i.e. they do not specify a per cents amount). Does this give rise to a constructive obligation? Or does it depend on whether such a declaration is legally binding?

   In general, more practical application guidance on constructive obligations, in terms of IAS 37, would be useful.

   Furthermore, the point in time when a legal obligation arises may differ between various jurisdictions. It is also possible that a legal obligation may arise before a dividend has been declared, for example if a certain percentage of the profits have to be distributed in terms of a shareholders' agreement.

   In addition, we are concerned that the term declared may not have a consistent meaning globally. In many cases, the term declared is a legal term but may mean any of the following:

   - The date that the directors propose the dividend;
   - The date that the dividend is approved by the shareholders (in some cases, this may just be a formality); or
   - The date on which the dividend is paid to the shareholders (in some jurisdictions a dividend approved by the shareholders may be revoked prior to payment).

.03 Paragraph .20 replaces the word significant with the word material. We interpret this to mean that less disclosure will result and we question the wisdom of this change.

IAS 15 – INFORMATION REFLECTING THE EFFECTS OF CHANGING PRICES

The proposal to withdraw the standard is supported.

IAS 16 – PROPERTY, PLANT AND EQUIPMENT

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)?

In principle we support the proposal. It could be preferable that paragraph .21 suggested the use of the fair value of the incoming asset rather than the outgoing asset as the expected method of accounting. This would be in line with IAS 18.09 and .12. For example, if an asset has no or little value because it is broken and is exchanged in terms of a guarantee, then it is more appropriate to recognise the new asset at its value, rather than at the impaired value of the asset being replaced.

The Board should clarify the treatment of such transactions when undertaken between entities under common control, and transactions between a holding company and its subsidiaries, associates and joint ventures.

The words more clearly evident confuse the issue. If the fair value for both assets is known, one cannot be more clearly evident than the other.

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 on 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.)

In principle we support the proposal.

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)?

We disagree with the concept of depreciating assets retired from use and held for disposal. This is contrary to the definition of depreciation as provided in paragraph .04, which requires the depreciable amount to be allocated over the useful life of the asset. When an asset has come to the end of its useful life, by definition, depreciation ceases. In addition, any entity using the units of production method would automatically result in nil depreciation during such a period. We believe a better proposal would be to suspend depreciation and consider impairment at each reporting date.

We also disagree with the proposal in respect of temporarily idle assets, as we are concerned that there will be inconsistencies depending on the depreciation method used. If the asset is being depreciated on a time basis, there will be a depreciation charge, however, if the asset is depreciated over units of production or similar units, there will be no depreciation charge while the asset is idle. Specifically, where a temporary idle period was always intended and was built into the estimate of the useful life of the asset, we are convinced that depreciation should not be charged. We also believe that the meaning of temporarily should be clarified to eliminate manipulation of financial information.

Additional comments

1. It is unclear as to whether exploration costs are now considered to be part of this standard or whether they would be considered to be part of mineral reserves.

   Further, this exclusion is now different from that which is provided in IAS 38 in respect of intangible assets.

2. The IASB has proposed a change to paragraph .04 stating that investment property under construction falls within the scope of IAS 16 because 'the property does not yet meet the definition of investment property in IAS 40. The same could be said about the definition of property, plant and equipment in IAS 16, which lacks specific guidance on accounting for property, plant and equipment under construction. We suggest that it be made clear that IAS 16 applies to assets under construction and how the recognition guidance in IAS 16.07 should be applied to such assets.

   Furthermore, it is unclear whether assets under construction may be treated under the alternative method of IAS 16. The commentary on IAS 40 (paragraph B17 and B18) indicates that properties under construction (for future use as investment properties) should not be stated at higher than cost. However, this is not apparent from IAS 16.

   We also believe that property in the process of construction (for future use as an investment property) and investment property being redeveloped (for continued use as investment property) should be treated in accordance with similar accounting principles. We believe that both such properties should be accounted for under IAS 16.

3. We suggest that an additional section is required, similar to IAS 39 paragraphs .11 to .21 regarding elaboration on the definitions. Many issues needing elaboration arise from the definitions, such as:

   - how to determine the residual value that the entity would currently obtain from disposal, especially on unusual assets;
   - clarification that not even depreciation on a straight line basis will not have an even charge year on year;
   - clarification that residual amount changes year on year;
   - to note that residual amount can never be above original cost;
   - to explain that depreciation could be a negative amount, (i.e. appreciation), (the principle of negative depreciation is undesirable and a contradiction in terms).

4. It appears as if paragraph .07(b) does not take into account donated assets, as fair values can only be used if the asset is carried at revalued amounts.

5. Without any reference to control or past events in paragraphs .07 and .08, and the removal of paragraphs .09 and .10, an asset may now be capitalised before it is acquired (e.g. a firm fixed price order for an asset is placed). This would not be in

line with the recognition criteria of the Framework and accordingly we suggest the recognition criteria for these types of assets be specified in the standard.

6. The proposed amendments to paragraph .12 require assets to be broken down into their material components, such that each component is depreciated separately and expenditure on replacing or renewing a component is capitalised. In addition, proposed paragraph .26 states that expenditure on immaterial replacements and renewals may be treated as repairs and expensed when incurred. It is also noted that the sentence in the former paragraph .25, which stated that expenditure incurred on repairs and maintenance is expensed, is to be deleted.

   We have some concerns with these proposals as to what extent should an asset be broken down into its components.

   Judgement is clearly necessary to determine the level of detail into which the component parts of assets are to be separately identified (i.e. materiality). We suggest that the deleted beginning of paragraph .12 be reinstated to make this point clear.

7. Paragraph .15(b) states that cost includes any directly attributable costs to bring the asset to the location and working condition necessary for it to be capable of operating in the manner intended by management. We are concerned that the wording may result in the manipulation of results. In our view there is a bigger risk in over-capitalisation of costs, rather than over-expensing costs incurred. Clearer guidance is needed to establish a principle for capitalisation of costs incurred on assets, and this principle should then apply to all assets.

   Furthermore, this paragraph could be in conflict with paragraph .17B. It may be difficult to differentiate the income considered under paragraph .15(b) from that considered in paragraph .17B. The treatment of such income could be inconsistent seeing that in paragraph .17B the justification for not capitalising the income is that it is not necessary, while the necessity or otherwise of the income is not being referred to in paragraph .15(b).

8. Many practical difficulties arise in interpreting what are directly attributable costs, referred to in paragraph .15A. We suggest that a principle be established, which can be illustrated by way of example, rather than merely providing a list of example costs. The principle should then apply to all assets. Currently an inconsistency arises in that administration and other general costs are capitalised under IAS 2 (paragraphs .10-.14), but are prohibited from capitalisation under IAS 16.

9. Guidance is needed on the date of measurement of the fair value of equity instruments issued in exchange for assets. This is especially relevant if paragraphs .09 and .10 regarding initial recognition are to be deleted. We believe guidance similar to the consensus reached in SIC 28 is needed in this regard.

   A linkage between the concepts of paragraph .16 and paragraph .16A is required, for example an acquisition in exchange for equity, where delivery of the equities is deferred to a future date or until occurrence of a future event.

In some cases the fair values of both the assets and the equities are clearly evident. Guidance is therefore needed on how to treat any difference between the fair value of the assets and the fair value of the equities issued. In this regard we feel that the economic substance of any exchange transaction of assets for equities must be considered - if the fair value of the equities issued exceeds the fair value of the assets obtained, this is an indication that something other than the assets (e.g. goodwill or future services) has been acquired.

10. The wording of the sentence in paragraph .17(a) may be very widely interpreted by preparers of financial statements. It should be more restrictive. The costs of opening a facility could be interpreted as only relating to costs of an opening ceremony; alternatively it could be interpreted as all costs necessarily incurred once the decision was taken to open a new facility (e.g. costs of finding, building and equipping a new facility).

11. Paragraph .17A refers in two places to in the manner intended by management. We believe that this introduces significant subjectivity and lack of comparability and opens the application of this paragraph to manipulation. In our view clearer guidance is needed to establish a principle for ceasing the capitalisation of costs incurred on assets.

    The possibility exists that if expenditure fails to meet the requirements of this paragraph it could be considered for capitalisation under the subsequent expenditures paragraph .23, seeing that the reason for the subsequent expenditure is not a consideration in paragraph .23 as long as there is an increase in future economic benefits.

    In addition, the costs of relocating assets that are excluded from cost are inconsistent with IAS 2.07 where cost includes the costs incurred in bringing inventories to their current condition and location. It is suggested that the treatment of these costs should be consistent.

12. In terms of the proposed amendments incidental income and expenses should not be taken into account in determining the cost of the asset. We are concerned that this is inconsistent with the principles in IAS 23, which requires that investment income earned on borrowings that have been re-invested, be deducted from borrowing costs capitalised and IAS 11, which allows for contract cost to be reduced by any incidental revenue that is not included in contract revenue.

13. We agree with the proposals in paragraphs .20A and .20B, however, we feel that there is insufficient guidance on the increases in the original amount capitalised because of subsequent inflation. The question arises as to whether these terms should be capitalised or expensed as part of the unwinding of the discount on the liability. We are of the opinion that inflation adjustments should be expensed as part of the unwinding of the discount on the liability.

14. Accounting for changes in estimates of the original costs – should they be capitalised or expensed? We believe they should be capitalised if they can be clearly identified and distinguished from inflation adjustments on the original costs, otherwise they should be expensed. However, guidance needs to be provided as to the measurement of such costs.

In addition, it is not clear what is meant by costs incurred in subsequent periods. Paragraph .20A can be read to allow the capitalisation of dismantling, removal and restoration costs that are incurred during the assets operational life. It should be clear that this is only permitted where the expenditure qualifies to be capitalised under subsequent expenditure. Restoration costs arising from the operations must be expensed in the year incurred.

Given that paragraph .20A makes it clear that the costs of dismantling and removing the asset and restoring the site are part of the cost of the asset, we are uncertain as to why paragraph .15A(e) should be removed.

15. The correctness of paragraph .20B is questioned. It is possible that the land value may increase as a result of site restoring costs in the situation where the land was acquired in a condition requiring such restoration, in which case it is not understood why the cost needs to be depreciated. It is only if the land was acquired in a certain condition with subsequent operations requiring the restoration to the original condition that the paragraph should apply. It also seems the last sentence of this paragraph is more appropriately contained in paragraph .45.

16. It would be helpful if the IASB provides guidance on computing discounted cash flow projections for determining the fair value of assets. For example, should an entity apply the guidance in IAS 36.27-.46?

    In two places, paragraph .21A refers to determined reliably. We suggest that this be replaced by reasonably estimated.

17. Paragraphs .22A-.22D are expected to create numerous difficulties, which need to be resolved.

    It is questioned whether the component to be written off had to be identified on initial acquisition. If not, then how is the carrying value of the component to be determined if it wasn’t initially identified as a component? Alternatively, if the initial component was not identified does the subsequent expenditure criteria in paragraph .23 apply, in which case the principle in these paragraphs is different to those contained in paragraphs .23? This would allow for manipulation of financial statements if the standard does not give guidance as to how far an asset should be broken into components.

    The same would apply if an entity could not apply these paragraphs and then defaulted to applying the subsequent expenditure paragraph.

    A repair of a broken component or the replacement of a broken component will lead to the same end result economically but no reason could be seen as to why they should result in a different accounting treatment.

18. We strongly disagree with the amended requirement that subsequent expenditure be capitalised when it increases the future economic benefits of the asset in excess of its standard of performance assessed immediately before the expenditure was made. This does not take into consideration that, for subsequent expenditure to be

capitalised using this principle, an impairment charge on the asset had to be recognised immediately prior to the expenditure (enhancement) being incurred.

- It might be difficult to differentiate subsequent expenditure and replacement expenditure.
- The cost of subsequent expenditure may significantly outweigh the increased benefits; if anything the subsequent capitalised expenditure should not be more than the increased benefit to be received.
- It is likely to result in inconsistent treatment between companies and years; items individually immaterial can be material in total and so companies might apply the principle noted in paragraph .26 differently, or might change the criteria for capitalisation (e.g. period for which benefits are likely to be received).
- It might be difficult to determine subsequent to a repair whether the future benefits have increased, making verification difficult. Accordingly this paragraph seems to be based on theoretical grounds and seems to fail on many of the qualitative characteristics for financial statements (e.g. reliability, neutrality, comparability and balance between benefit and cost).

The examples of subsequent expenditure listed in paragraph .24, in our view, demonstrate the principle contained in the current text of IAS 16, i.e. that subsequent expenditure should only be capitalised if it increases the future economic benefits in excess of its originally assessed standard of performance. We strongly believe that this principle should be retained and reinstated.

19. While supporting the second sentence of paragraph .25, it is inconsistent with the treatment that is suggested in paragraph .23 in that it only allows subsequent expenditure to be capitalised to the extent of previous impairment losses, where these have been recorded. As noted above paragraph .23 does not limit the amount to be capitalised if no impairment had been carried out; so companies will delay carrying out impairments until the year-end to avoid being caught by the wording of this paragraph.

20. Paragraph B17-18 of appendix B to IAS 40 indicates that investment properties in the course of construction should not be revalued. It is suggested that paragraph .46 be amended to state this specifically.

21. There are inconsistencies between IAS 16, IAS 21 and IAS 39 regarding the treatment of amounts deferred in equity when the underlying asset is derecognised. IAS 21 and IAS 39 recycles amounts deferred in equity to the income statement, whereas IAS 16 allows a transfer from a revaluation reserve to retained earnings by way of a transfer in the statement of changes in equity. We believe that a revaluation reserve created when the alternative treatment of IAS has been followed, should be transferred directly to the income statement when realised. In addition, the current and proposed wording of IAS 16 does not require the realisation of the revaluation reserve on disposal or through use of the asset. This provides the entity with the opportunity of maintaining a revaluation reserve in respect of an asset even subsequent to the sale thereof, which is not necessary, problematic. However, as mentioned above, this is contrary to the treatment prescribed in other standards.

22. Paragraph .46 seems to allow an entity to include negative depreciation in net profit due to a changing residual value. Such negative depreciation may not only unwind previous depreciation charges but may take the asset to a carrying value above its original cost. There is no restriction in the proposed changes to state that the residual value cannot exceed cost. If this is the intended impact, it should be explained since it will be questioned whether this is intended; alternatively the wording should be clarified as some might question whether depreciation should cease when the residual value exceeds the carrying amount.

The word material in the paragraph may cause problems. Is this meant to refer to material to the financial statements as a whole, or in relation to the carrying amount of each asset individually?

Allowing the residual value to move in value is a partial step towards the allowed alternative method of accounting for property, plant and equipment. Maybe the standard should question the use of the benchmark treatment, rather than allow for such hybrid methods to exist.

Depreciation represents a pattern of consumption (see paragraph .52). Allowing depreciation to be reduced or reverse will undermine the purpose of depreciation and it is argued will be contrary to the definition of depreciation. This would not be affected if entities used the allowed alternative method correctly.

The result of the proposed changes is that inflationary (not hyper inflation) economies would effectively perform a revaluation up to cost (or maybe above cost) on the cost method. Accordingly we recommend that the present requirements for residual values be retained.

23. It is not sufficiently clear as to whether changes in expected useful life or depreciation methodologies may be accounted for on the reallocation method (i.e. carrying amount for depreciation is not changed, but new residual value/useful life determines current and future year's depreciation) or the cumulative catch up method (i.e. amount under/over depreciated in prior years is included in the current year's income statement).

24. It is questioned whether the disclosure of such compensation, as set out in par .53A, is necessary. The cash flow statement and the movement in property, plant and equipment do not require the proceeds and net book value of such disposals to be shown separately. Why should compensation be treated differently from disposals, particularly where it is normal for insurance proceeds to be regularly received for stolen, damaged or destroyed assets?

In addition it is suggested that received should be changed to receivable seeing that these amounts should be accounted for on the accruals basis. If the compensation can only be recognised when the amount is received in cash, this is in contradiction with the accounting for contingent assets in IAS 37, which states that when the realisation of income is virtually certain, the related asset is no longer a contingent asset and should be recognised.

25. Paragraph .60(a) appears to contradict paragraph .34 in that this paragraph provides for more than one basis to be used to measure a class of asset, whereas paragraph

.34 states that if an item is revalued, all other items in that class should also be revalued. We suggest that paragraph .60(a) be reworded to be consistent with paragraph .34.

26. We are uncertain whether disclosure of the comparative reconciliation of the carrying amount of each class of property, plant and equipment is useful. We suggest disclosure be limited to total comparatives for property, plant and equipment.

27. The wording in paragraph .66A should be consistent with that used in IAS 28 and 31, namely that the revised paragraphs become effective on a specific date instead of the amendments to the paragraphs becoming effective on these dates.

    We believe that the transitional provisions should be reconsidered particularly because of the difficulty of restating property, plant and equipment for the changes introduced for issues such as the elements of costs, the treatment of components and subsequent expenditure retrospectively. Consideration should be given to accounting for these prospectively seeing that it will be difficult to eliminate costs that can no longer be capitalised in terms of the proposals.

28. Currently no standard addresses the measurement, recognition or disclosure requirements regarding leasehold improvements (these being improvements made to a property occupied under an operating lease). We believe that guidance in this regard should be included in IAS 16.

    We also believe that additional guidance should be provided on the accounting treatment of disposals of assets given up as purchase consideration in a business combination.

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 buildings and a lease of land? 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 .03-.10 of IAS 17.

Yes, but we would not agree where the land and building would both be finance leases or operating leases of a similar duration. Further consideration also should be given to leases of land where the land's life is limited (for e.g. a golf course, a quarry or a landfill site).

Paragraph .11B requires a reliable allocation of the lease payments, but does not indicate what is meant by reliable. Further to this, the default requirement to treat the entire lease as a finance lease when payments cannot be reliably allocated is considered harsh. It is suggested that the substance should rather be considered in the same way as for any other lease.

There are no transitional provisions for implementation, which would mean that IAS 8 would be applied (change in accounting policy), i.e. the implementation should be accounted for retrospectively. This could result in some practical difficulties.

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 agree that the initial direct costs, (both internal and external) should be capitalised as this approach is consistent with that recommended for lessees in terms of IAS 17, as well as that adopted under other standards, including IAS 16.

Additional comments

1. We believe that the current definition of the inception of a lease is incomplete, as it does not take into account situations where the asset subject to the lease agreement does not yet exist, for instance because the asset is under construction. Although a lease agreement may be already entered into, lease payments generally would not begin until the asset is constructed and made available to the lessee to use and the construction contract is settled.

2. When applying the current definition for classification, in such cases the present value of the minimum lease payments is discounted back to the date of the lease agreement. This can potentially impact the outcome of lease classification, and allow for manipulation of classification as a finance lease versus an operating lease simply by changing the period of time between signing a lease contract and the expected date that construction would be completed. Regardless, the interpretation

of inception of a lease could lead to a grossing up of the balance sheet prior to the start of the actual lease term.

We suggest that the definition should address this situation by further noting that, if the asset subject to the lease has yet to be constructed or acquired by the lessor, the lease inception is considered to be the date that construction is complete or when the asset is acquired by the lessor.

3. We also believe that the definition of contingent rent in IAS 17.03 should be improved, as it seems to leave room for interpretation of what is considered to be not fixed in amount. Our view is that this definition is specifically referring to future amounts that are not fixed because they are linked to future changes in indices, sales, usage of equipment, etc. The definition should not be interpreted as any variable amounts equal contingent rents. That would leave too much leniency to structure the lease classification as an operating versus finance lease, for example by basing lease payments on a variable rate of interest rather than a fixed rate.

4. Proposed paragraph .29A details the accounting treatment of initial direct costs incurred by lessors in negotiating and arranging a lease. The reference in paragraph .34 relating to the accounting treatment of initial direct costs by manufacturer and dealer lessors should be moved to proposed paragraph .29A.

5. Paragraph .44 addresses initial direct costs incurred by lessors on operating leases. The proposed amended standard does not address initial direct costs incurred by lessees on operating leases and guidance is required in this regard. We believe that the treatment should mirror the treatment by lessors, so that there is no room for arbitrage between transactions being conducted by lessors or by lessees but which in substance have the same result.

6. IAS 17 states that in the case of a finance sale and leaseback transaction, the substance of the transaction is to provide finance to the lessee, using the asset as security. It is therefore uncertain as to, why the statement requires that the excess of sale proceeds over the carrying amount be deferred and amortised over the lease term. If the substance of the transaction is merely financing, the asset should continue to be reflected at its carrying amount, unless it is the entity's policy to revalue the asset, which should be a separate decision.

IAS 21 – THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

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 .07-.12 on how to determine what is an entity's functional currency?

The proposed principle is supported, however, the definition is not clear as to whether the functional currency should give more weight to the operating environment in which an entity operates or the country in which an entity operates. The summary of the main changes to IAS 21 notes that greater emphasis is to be given to the currency of the economy that determines the pricing of transactions than to the currency in which transactions are denominated. Practically, what does this mean? The statement should provide adequate examples to illustrate this.

No guidance is given on how much weight should be given to the various indicators provided in paragraphs .07-.09. In addition, paragraph .10 states that when the indicators are mixed and the functional currency is not obvious, judgment should be used to determine the functional currency. We believe that the proposals do not provide enough specific guidance and examples on how to determine the functional currency. Take a South African gold mining company as an example: All its sales are US dollar denominated, while most of its operating costs are denominated in South African rand. Due to exchange control regulations, the company cannot retain its receipts from operating activities in US dollars and must therefore convert them into rands. Is the functional currency US dollars or South African rands?

We are concerned that the guidance in paragraph .09 (foreign operation) has some inconsistencies from the functional currency concept in paragraph .07. The economic environment test is, in our view, different to the independence from parent test.

For example, a French company with the euro as its functional currency may have a foreign operation based in the USA. The US subsidiary may be funded by the parent in US dollars and all its transactions may be in US dollars, including purchases from the parent company. Its primary economic environment may be the US environment using the guidance in paragraphs .07 and .08. However, it may source its entire product from the parent, remit proceeds to the parent and otherwise operate as a traditional branch.

Under paragraph .09 it clearly is an integral part of the parent's activities, which implies that the euro is its functional currency. Paragraph .10 deals with circumstances where the indicators are mixed, and seems to revert to the definition of functional currency, suggesting that paragraphs .07 and .08 would override paragraph .09. We do not disagree with this conclusion, but we do believe that further guidance should be provided to explain that the economic environment test should override the independence from parent test in circumstances where there is conflict.

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?

The principle is correct, but should include the fact that the presentation currency should be useful to users, otherwise it is of little benefit, particularly if they are to meet the qualitative characteristics of financial statements as required by the Framework.

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)?

We support this principle.

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

Yes. However, IAS 23.05(e) that allows certain exchange differences to be capitalised should to be amended to prevent inconsistent capitalisation principles.

Question 5
Do you agree that:

goodwill and
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)?

The concept of treating goodwill and fair value adjustments to assets and liabilities as assets and liabilities of the foreign operation, which are translated at the closing rate, would appear to be conceptually correct. However, we table reservation with regard to whether this proposal will overly complicate consolidation procedures when applied in practice.

If the standard is accepted in its present form it is suggested that the wording of paragraph .45 be amended to indicate that goodwill should not be apportioned to outside shareholders. The present wording states that goodwill should be treated as assets and liabilities of the foreign operation. Some preparers may gross up goodwill, which would result in internally generated goodwill being recognised.

Changing goodwill balances may need additional disclosures in the notes to the financial statements to explain why, for example, the balance and amortisation amount has increased from the previous year even though no acquisitions were made in recent years, which could occur when a large movement in exchange rates occurs.

Guidance should be provided on which foreign currency to use or how to allocate goodwill in a business combination that involves various foreign operations with different functional currencies. For example, acquiring a group that comprises foreign subsidiaries and associates. Do you attribute the goodwill to the foreign operation in which the direct interest is held, i.e. the foreign parent? Or do you allocate the goodwill to each foreign operation acquired and translate it at the applicable exchange rate?

It is suggested that transitional provisions should be included to address the situation where an entity previously applied the now deleted alternative.

Additional comments

1. It could be made clearer that the exclusion is respect of transactions and balances relates to derivatives only and not all IAS 39 balances in addition to derivatives transactions.

2. Often cash flow statements are derived from the income statement, balance sheet and statements of changes in equity. This is likely to remain after the standard is changed. Accordingly it is possible that a cash flow statement derived from the financial statements presented in a currency other than the functional currency could differ from that prepared in the functional currencies when translated into a presentation currency, particularly where, as noted in our comment on paragraph .37 below, the cash flow might use items as shown in the statement of shares in equity. This possible problem should be highlighted.

3. It appears that the functional currency can be designated at a divisional level, such that different divisions within one reporting entity can have different functional currencies. If this is true, the standard does not make this clear. We feel that references to the primary economic environment in which the entity operates will intuitively be interpreted as the reporting entity, and not to a concept of entities within one reporting entity.

   The definition of foreign operation should be expanded to make it clear that the entities involved include all special purpose entities (i.e. trusts, cell structures, experience account balances.

4. An indicator of a hyper inflationary currency is that the general population regards monetary amounts… in terms of a relatively stable foreign currency (IAS 29.03(b)). This implies that the foreign currency should be regarded as the functional currency in terms of the guidance given in this paragraph. If this is the case, can the functional currency ever be a hyper inflationary currency?
   The proposals in paragraphs .07-.12 require each entity (such as a parent, subsidiary, associate or branch) to determine its functional currency. Is it feasible for one legal entity that comprises a head office and various branches, to have a mixture of functional currencies? If so, should the exchange differences arising on translation of the branches be recognised in the income statement since they are real exchange differences of the one legal entity?

   In practice it may be quite onerous to determine the functional currency for all entities and to measure all transactions and events on this basis for the following reasons:

   - for income tax purposes, financial statements are generally prepared in the currency of the country in which the entity is domiciled.
   - a foreign operation may not be required to determine such a functional currency in terms of its local accounting standards.

This means that where the functional currency is different to that of the country in which the entity is domiciled, a separate accounting system would need to be kept in order to prepare IAS financial statements.

5. We believe it would be useful to provide an approach to determining the functional currency for a foreign operation when the currency of a majority of its intercompany transactions differs from the functional currency of the parent.

6. Under the proposed amendment in paragraph .14, deferred tax is a monetary item. This is debatable as deferred tax arises from both monetary and non-monetary items. Deferred tax is thus a derived number rather than one, which exists independently in its own right. Translation of the deferred tax balance should reflect this and should not simply be treated as a monetary item, as suggested in paragraph .14.

7. Date that value was determined should be changed to read balance sheet date in order to make it clearer that a post balance sheet rate cannot be used.

8. It is normal for quoted foreign exchange rates to have different prices for buying or selling of foreign currencies. This implies that it would be expected that assets and liabilities in a foreign entity should be converted at different rates. Alternatively it could be argued that the foreign entity would be sold as a whole and not piecemeal, in which case it is acceptable to use one rate for translation. It is suggested that this paragraph be expanded to clarify the accounting for this issue.

9. The wording of this paragraph .30 can be improved. The reference to financial statements that include the foreign operation and the reporting entity is unclear. All financial statements will include the foreign operation – albeit as an investment in the stand-alone accounts. The wording should make it clear that it is addressing the financial statements that include the income statement, cash flow statement and balance sheet items of the foreign operation.

10. This paragraph .33 does not deal with how the comparative financial statements should be treated where such a change has taken place. We believe such guidance should be given.

11. We believe this paragraph .37 is deficient in a number of respects. For example, it does not deal with movements in balance sheet accounts that will be required to be given in the notes. Secondly, the movements in such accounts could differ from those in equity that are required to be at the year end rate. This could include items such as the issue of shares or revaluation of property, plant and equipment. In addition, it is not understood why dividends should be converted at the year-end rate when this would be different to the amount received by shareholders who receive the dividend in that foreign currency. Thirdly, it is questioned whether the wording is implying that the opening retained income as well as the opening foreign currency translation reserve in the current year's statements of changes in equity should be restated at the year end rate. Fourthly, it is questioned whether the paragraph requires a foreign associate with a year-end that differs from that of the investee to be translated at the year-end rate or the rate applicable at the year-end of the associate.

12. We also question why the equity items resulting from the current period's income and expenses are not also translated at the closing rate. In terms of the current proposal the retained income in the presentation currency is not equal to the retained income in the foreign currency translated at the closing rate. What is the reason for this? We believe that all of the equity should be translated at the closing rate.

13. The proposed treatment of the differences arising from the translation of foreign operations is to recognise foreign currency translation differences as a separate component of equity until the disposal of the operation. It is our submission that gains and losses arising on the translation of foreign operations should be recognised directly as income or expenses when incurred. This recognition of gains or losses as income or expenses would enhance the understandability, relevance and reliability of reported information, by providing information about the present and future economic benefits (future economic benefits will result in future cash flows). In addition, the recognition of translation gains and losses in the income statement is consistent with the definitions of income and the expenses as set out in the framework.

14. IAS 29.08 is not consistent with this proposed amendment in paragraph .40(b). It is not clear why IAS 21.40(b) has been amended.

    Furthermore exchange differences will be caused by this paragraph. The standard is silent as to how these should be treated. We believe the treatment should be clarified.

15. Paragraph .46 and .47 are silent as to whether a dilution in interest (e.g. additional shares issued to minority shareholders – i.e. no shares disposed of) would be included within the ambit of this paragraph. This issue should be clarified.

    We would appreciate some guidance on whether the repayment of a permanent loan in a foreign entity (see paragraph .13) constitutes a partial disposal that requires some portion of the cumulative exchange difference to be transferred to the income statement. Although this would appear to be a natural interpretation of the proposals, we note that US GAAP considers only ownership interests in accounting for a partial disposal.

16. A mere statement of fact that the functional or presentation currency has been changed is of little value. We suggest that the reasons for the change should be required.

17. IAS 22 paragraph .71 provides for the subsequent recognition, or subsequent adjustment to the carrying amount, of assets or liabilities acquired in a business combination. We believe that IAS 21 or IAS 22 should provide specific guidance on how to determine such adjustments or the amount at which an asset or liability is recognised where the underlying item is denominated in a foreign currency. We believe that since the purpose of paragraph .71 is to recognise the item at its fair value at date of acquisition, the amounts should be translated at the exchange rates existing at the date of acquisition. This would mean that exchange differences between the rate at acquisition and the current rate would be recognised in the

income statement where they arise on translating an item into the measurement currency of the foreign operation. However, exchange differences arising on translation into the functional currency of the parent would be recognised in equity.

18. There are no transitional provisions; this implies the standard will require full retrospective restatements. This may give rise to numerous undue cost or effort arguments (e.g. determining foreign currency amounts for goodwill and related goodwill, changing arising from a functional currency which differs from present measurement currencies and restating the foreign currency translation reserve). Accordingly consideration should be given to only requiring prospective application of the standard.

19. Generally the tax base of an asset is denominated in the currency of the country in which an entity is domiciled. This means that if an entity has a different functional currency, temporary differences will arise as a result of changes in the tax base solely as a result of exchange differences between the local currency of the country and the entity's functional currency. We believe that IAS 12 or IAS 21 should address this issue.

20. The statement requires disclosure of the amount of exchange differences included in profit or loss for the period, but the statement provides no guidance on where such exchange differences may be presented in the income statement. In some cases they may relate to revenue, or to cost of sales for the period, and the question arises whether such items should be adjusted with the related exchange difference or whether exchange differences should be presented as a finance charge or operating cost / income. The absence of any guidance in the standard indicates that the logical conclusion would be to adjust the relevant item in the income statement to which such costs relate and merely disclose the total exchange gains and losses for the period. Is this correct?

IAS 24 – RELATED PARTY DISCLOSURES

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 .02)?

"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".

We disagree with the proposal. The admirable and progressive IASB agenda item to consider the disclosure and measurement of share-based payments provided to management is contrary to the deletion of the requirement to show compensation by means other than stock. Disclosure of this item is of key interest to many users, including analysts and the financial press. Such disclosures should be required as part of the overall move towards considering corporate governance issues in reporting and should be part of the accounting standards. The reason in A3 (a) in Appendix A is not a reason for non-disclosure.

The argument that management cannot be defined is not accepted seeing that paragraph .09(c) has been requiring such individuals to be identified since IAS 24 became effective in 1986. Management should be the directors (or similar group of individuals) that carry out a stewardship function within the company. This would include the ability to determine their own remuneration. Key management is defined in IAS 24, and we believe that this definition is adequate for the purposes of this statement. Alternatively the definition of management could be resolved by replacing it with key management personnel as used in the proposed public sector accounting standard with the same name:

"Key management personnel are:

(a) all directors or members of the governing body of the entity; and

(b) other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity. Where they meet this requirement, key management personnel include:

   (i) where there is a member of the governing body of a whole-of-government entity who has the authority for planning, directing and controlling the activities of the reporting entity, that member;

   (ii) any key advisors of that member; and

   (iii) unless already included in (a), the senior management group of the reporting entity including the chief executive or permanent head of the reporting entity."

A definition of compensation is unnecessary, as IAS 24 requires disclosure of all material related party transactions. This includes items of both revenue and capital nature, not just compensation and we feel it is unnecessary to specify a definition of compensation.

We believe that certain levels of disclosure with respect to these items should be provided, based on their relative significance and relevance. Entities grant more and more diversified compensation packages to their employees and it is important to illustrate their impact in the financial statements, especially in the absence of comprehensive measurement requirements.

In our opinion, the objective of the standard should be to design a stopgap measure until more specific measurement requirements are developed. It would therefore be better to specify what disclosure is required, rather than to insert a broad exclusion in the Standard. If the terms management and compensations are not sufficiently defined, how should entities determine which items are in fact scoped out the standard?

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 .03)?

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

We agree with deleting the requirement with respect to related party transactions in the separate financial statements of a parent and a wholly owned subsidiary. However, we suggest that there be a requirement to separately disclose the inter-company balances that have been eliminated on consolidation.

In addition, we do not believe it is necessary to require that the consolidated financial statements should be made available with the separate financial statements of the group companies, as long as such group financial statements are made publicly available.

The exemption is worded in such a way that it appears as though a parent or wholly-owned subsidiary are not required to make any related party disclosures. It is uncertain as to whether this is the intention of the amendment.

Additional comments

1. We suggest adding a reference to securitisations in paragraph .16.

2. Paragraph .17 states that disclosures that related party transactions were made on terms equivalent to those that prevail in arms' length transactions are made only if such disclosures can be substantiated. In the absence of guidance about measurement of related party transactions it may be difficult to meet this requirement in practice. For example, would a parent that grants a low-interest loan with no specified repayment terms to one of its subsidiaries be prohibited from making that statement? If this is the case, what alternative disclosure should it provide?
3. The exemption provided in the existing Standard for state-controlled enterprises should be retained. A number of economies still heavily rely on the state-controlled enterprises and that exemption is relevant to them. An example would be where, in a country, the telecommunications, transport supplier and electricity provider are all state controlled. Each of the above would be required to disclose amounts paid in respect of telephone accounts, electricity account and transport costs to the other state controlled entities. We believe that such disclosure would not be useful. We are concerned that the exemption in paragraph .11(c) may not be sufficient to exclude the above-mentioned disclosure. It would however be appropriate for the direct support the entity receives from the state to be disclosed.

4. The existing Standard describes the most common pricing methods for related party transactions. We agree with the proposed change to remove these paragraphs, since the Standard does not deal with measurement issues. However, we suggest that measurement of transactions between related parties be considered as a topic for a separate IASB or IFRIC project. The existing standards and the proposed changes do not provide specific guidance about the need for re-measurement of transactions between related parties, neither do they clarify whether the requirements to measure transactions at fair values should apply to the transactions between related parties. For example, it is not clear whether the requirements with respect to initial measurement of the interest-free loans should apply to such loans granted between related parties. The issue is even more serious if transfers between related parties are made at no cash consideration. Lack of rules and guidance in this area may lead to significant inconsistencies in the treatment applied by various entities.

5. We believe that the IASB should include a requirement to disclose transactions, balances and relationships if parties that enter into a transaction are subject to influence from the same source to such an extent that one of the parties has subordinated its own (separate) interests. Consider the situation where Company A exercises significant influence over two entities, B and C. As a result of this influence the entities may not always act in their own interests in entering into transactions with each other. We believe that where the two entities have entered into a transaction, and in doing so one has subordinated its own separate interests, a relationship exists between the two entities that should be disclosed.

IAS 27 – CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING FOR INVESTMENTS IN SUBSIDIARIES

Question 1

Do you agree that a parent need not prepare consolidated financial statements if the criteria in paragraph .08 are met?

In principal we agree with the proposal. Paragraph .08(a) however does not state when such agreement should be made (e.g. at beginning or end of year), how often this agreement is required (e.g. annually or whenever the shareholders change), whether it should be in writing or whether wholly-owned relates to the full year or only at the year end. Further, it is uncertain whether those not entitled to vote include instruments such as preference shares and convertible debt instruments, and if so under which circumstances, and does it extend to options. Guidance on these issues should be provided.

We believe that this exemption should be extended to associates (i.e. do not have to equity account for an associate) and joint ventures (i.e. does not have to equity account or proportionately consolidate a jointly controlled entity) where group financial statements are not presented in terms of IAS 27, paragraph .08.

The Board also needs to clarify the definition of parent to include all parent companies within the group, and not restricting it to the immediate parent company.

The meaning of publish in paragraph .08(d) should be expanded on to emphasise that the consolidated financial statements should be made available (issued) to all the shareholders (and should thus not only be prepared) before this paragraph comes into effect.

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)?

If this change is accepted it will not be possible to account for profits and losses on transactions with the minorities, as they will be a class of equity. This includes the disposal of further shares to minorities, variation of interest of rights issues, etc. Further, goodwill on subsequent acquisition of shares from minorities may not be possible, as this additional amount may constitute a distribution to equity participants in terms of paragraph .70 of the Framework. Because of the impact of this change it is suggested that it be delayed until all the implications are dealt with in the accounting standards.

Although the minority interest is a residual and does not meet the definition of a liability, we do not believe that it is a residual that belongs to the parent's shareholders. We believe that, until the project on consolidations has been completed, minority interests should continue to be disclosed between equity and liabilities (a mezzanine level) and should continue to be deducted from profits for the period when arriving at net profit or loss attributable to ordinary shareholders.

If the IASB retains this amendment, it is our understanding that this implies that an entity should therefore include the minority interest as a separate category of equity, for the purposes of the statements of changes in equity and therefore provide all of the necessary disclosure (i.e. a reconciliation of the opening and closing carrying value for the period under review (although the interest for the year is still included in the income statement)). Minority interests will, however, be disclosed separately on the face of the balance sheet. There appears to be a lack of consistency in respect of minority interests.

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)?

We agree with the proposed treatment of investments in subsidiaries, jointly controlled entities and associates in the investors separate financial statements. We agree that consistent treatment should be applied in the investors separate financial statements.

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)?

Yes, we agree.

Additional comments

1. As SIC 12 is an interpretation of IAS 27, we believe that the IASB should consider including its consensus in IAS 27. In considering control, IAS 27 currently focuses on control, but does not consider including an evaluation of the risks and rewards associated with the investee.

2. Although we agree that control may be precluded when an investee is in legal reorganisation, bankruptcy or operates under severe long-term restrictions on its ability to transfer funds to the investor, we are of the view that additional practical guidance and implementation guidance may be required as to when this situation may arise. This should include examples of, or guidance on the meaning of legal reorganisation or similar cases that may have the same effect. This may include the inability of an enterprise to access the benefits of a subsidiary due to stringent exchange controls in the country in which the subsidiary operates. There may be cases where a parent might control all the operating aspects of a subsidiary even though there are significant limits to the subsidiaries ability to transfer funds to the parent. Such restrictions may mean that a portion of the assets of the group is restricted but this does not necessarily mean that the parent does not control the operating and financial policies of the group. As a result of this change, more majority-owned investees will be excluded from consolidation in a wider range of circumstances. In addition, we suggest rephrasing the paragraph to explain the reason for this observation. Presumably the basis for the Board's view is similar to that in SIC-12: that the concept of control is not just the power to manage but also the power to obtain benefit. Paragraph .12A should be rephrased to emphasise that significant uncertainties over the ability to realise benefits result in the conclusion of lack of control.

3. From a practical perspective, it is difficult to apply the various factors to each case as the consideration of each factor may result in a different answer. We believe that there is also confusion between the ability to control and de facto control. Application of the principles may result in conflicting views. It would be useful to provide additional guidance on the impact of super-minority protection clauses, and the impact thereof in the consideration of control. In US GAAP, EIFT 96-16 provides guidance in this regard. Should such guidance be considered or not?

4. We are also concerned that paragraph .12A could lead to an unsatisfactory application in the case of a loss making subsidiary. Statute (as in SA) may prohibit the distribution of dividends unless the entity is liquid and solvent, resulting in the deconsolidation of the loss making subsidiary.

   This paragraph should also indicate that while there may not be control, there might still be significant influence, in which case IAS 28 could apply, seeing that the requirement for equity accounting includes the power to participate in the financial and operating policy decisions without the requirement that this power is used to obtain benefits from its activities.

5. This Paragraph .12B does not emphasise the fact that there can only be one controlling entity, or that management's intention and financial ability is not considered as presently stated in SIC 33. These were in the interpretation and have not been carried through to the amendments.

   Withdrawing SIC 33, and including only its conclusion in IAS 27, means that the examples in the appendix to SIC 33 will no longer be available. The examples are useful in understanding the conclusions reached in the SIC and we believe that it would be useful to include them as an appendix to the amended statement.

   SIC 33 also provided guidance on the following:

   - consideration of management's intention and the financial capability;
   - terms of exercise of potential voting rights; and
   - treatment of linked transactions (i.e. where an enterprise sells and simultaneously agrees to repurchase a present ownership interest).

   This guidance is not included in the amended standard. We believe that such guidance should be included in the standard.

   Furthermore, we remain concerned with the principle in this paragraph because in some cases it may not be possible to obtain the necessary information to consolidate an entity because the entity has no right to such information, nor to determine the year end of the entity and the effect of different accounting policies or the timeous production of results without actually exercising the options. If this is the case an entity which is not able to exercise the option would in theory be required to exercise options even when there is no intention to do so in order to obtain the required information for consolidation. This in our mind highlights that this proposal, while being theoretically correct, may not be practical, which suggests it should be reconsidered.

6. Additional guidance should be provided in cases where an entity is acquired with a view to its subsequent disposal within 12 months and the entity's intention changes subsequent to the initial acquisition. We believe that this is neither an error, nor a change in accounting policy and should be adjusted prospectively. The subsidiary should be consolidated prospectively from the date of change in intention. If this is correct, this guidance should be provided. Additional guidance may also be required in respect of the date of measurement of the fair values of the underlying assets and liabilities (i.e. should this be the date that the intention was changed or should it be the acquisition date, and how should the profit or loss for the period between the two be accounted for).

   Rather than a twelve-month period, it may be preferable to base the exclusion on similar principles to those included in discontinued operations, i.e. binding sale agreements or formal plan with announcements.

   Additional disclosure should also be considered.

7. The Board should also provide transitional provisions for entities who previously applied the consolidation exclusion in paragraph .13 (acquired and held with a view to subsequent disposal), but who would have owned a subsidiary for longer than 12 months at the time that the amendments become effective.

8. We believe that the most meaningful information for a venture capital organisation's managers and investors often are financial statements prepared using a comprehensive fair value accounting model rather than consolidated financial statements based largely on historical costs. We think these different information needs distinguish users of a venture capital organisation's financial statements from those described in paragraph .30A. Therefore, we believe that the scope exclusion should be extended to all venture capitalist investments including subsidiaries. However this view on the venture capitalist's financial statements is only valid so long as the use of fair value is comprehensive and not selective. Therefore, we believe that the exemption from use of IAS 27 should be available only if substantially all of a group's investments are measured at fair value. We would interpret substantially all as 90%. If an entity asserts that lack of reliability in determining fair value requires the use of cost measurement for more than an insignificant portion of its investments, then it should not be able to utilise this option in respect of some or all of its subsidiaries. We would interpret an insignificant portion as 10%.

9. We also believe that an enterprise should be required to make a consistent policy election in respect of the fair value alternative for measurement of subsidiaries and associates held for investment purposes.

   As further justification for our views we point out that by following the proposed changes, a venture capitalist will present its separate financial statements on a fair value basis (i.e IAS 39 approach) and its consolidated financial statements on a historic cost basis. This will clearly be misleading and this consolidated financials (and the audit opinion thereon) are likely to be scorned.

10. The counter argument to paragraph .14 and .19 is that of undue cost or effort which is used in other standards. If this argument is not to be accepted it should be dealt with in the standard.

11. In some jurisdictions (as in South Africa), the associate/subsidiary may be listed, and the investor/parent is thus legally prohibited from obtaining information regarding significant transactions where the year-ends differ by more than three months. This situation needs to be catered for in the standard.

12. Paragraph .23 needs to clarify the treatment that is appropriate in situations where there has been a partial disposal or deemed disposal, but where it remains a subsidiary/associate. We are of the opinion that gains (if any) should be recognised on all such transactions and that such events should also be treated as impairment triggers.

13. The standard should not just deal with disposals, but also with variations of interest (either increased or decreased) that could arise from, say, a rights issue by a subsidiary where the shares are not taken up in accordance with existing shareholding ratios. This gives raise to issues such as whether a gain or loss arises which should be included in the income statement, or whether goodwill is affected.

14. Paragraph .28 provides guidance on the treatment of preference dividends in respect of preference shares held by the minorities. It would be useful to provide additional guidance on the treatment of preference shares that are held by the minorities on consolidation. It is our understanding that such preference share capital, including any premium on issue, that is classified as equity by the subsidiary, should be allocated to the minorities on consolidation.

15. In our view the disclosure requirements of the current paragraph .32(a) should be reinstated. This information is useful to users and can also reflect the extent of consolidated special purpose entities (e.g. where the entity is a controlled subsidiary under SIC 12, but the parent holds none of the equity).
    It should be made clear that the disclosure requirements of paragraph .32 and .33 also apply to special purpose entities as envisaged in SIC 12.

16. This proposed disclosure as set out in paragraph .33(a) is not supported. The reason for not preparing separate financial statements would be more appropriate disclosure, seeing in some countries entities are required to prepare separate financial statements, and with creditors, employees and tax authorities often being exposed and relying on individual entities it is argued that it makes more sense to state why separate financial statements are not required.

17. There is currently no guidance on the treatment of a parent's investment in a subsidiary where the subsidiary is making losses. Where the investment in subsidiary is recognised at cost, and the losses are consolidated, the reserves of the group are lower than those of the company. Is this sufficient to indicate that the parent's investment in the subsidiary is impaired and an impairment provision against the investment in subsidiary be recognised?

18. Additional guidance is also needed on variations in a holding company's interest. For example, if a subsidiary buys back its own shares from the minorities, and as a

result, the holding company’s effective interest in the subsidiary is increased, will this issue fall within the scope of IAS 27 or IAS 22?

IAS 28 - ACCOUNTING FOR INVESTMENTS IN ASSOCIATES

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 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 .01)?

Whilst we support this exclusion from a practical and industry specific perspective, we struggle to find the conceptual support for the exemption from the principle. We therefore agree that the exclusion remain, but feel that it should be expanded and clarified substantially to minimise any manipulation and inappropriate use of the exclusion. Therefore, venture capital organisations, mutual funds and unit trusts must be properly defined. This definition may include a time limit, if appropriate, as this principle may be open to abuse. In addition, we believe that there should be additional guidance on what is meant by well-established practice. This may be subject to manipulation. Furthermore the standard should clarify what an acceptable definition of fair value is. If the entity cannot justify a fair value, then it is more likely that it is not an appropriate candidate for the exclusion.

We suggest, inter alia, that the economic activity of a particular investment cannot be for the benefit of the parent (e.g. an IT group with a venture capital subsidiary which invests inter alia in IT research). Also, the organisation needs to have a reasonable number of venture capital investments with a reasonable spread in the value invested, and have a documented exit strategy for each investment.

We do not support the present wording of the proposal. This is effectively condoning practices that are contrary to the standards. If industries were complying with the standards, as some countries are, they would not be showing associates at fair value. Accordingly it would not be business practice in those countries to show associates at fair value and they would be precluded from doing so for the very reason that they were complying with the standards, whereas counties that were not complying with the standards would be allowed to do so. This illustrates that the wording is inadequate and needs to be reworded to state that investments meeting certain criteria can be accounted for in terms of IAS 39 instead of IAS 28 and IAS 31.

Joint ventures have an element of control making them closer to subsidiaries than associates, so by extension this exemption should then apply to subsidiaries (which is not considered desirable). Accordingly consideration should be given to removing the option of joint ventures being shown at fair value.

We are uncertain whether this exemption also applies to insurance companies that comply with IASs. For example, an insurance company may hold such investments as part of policyholder assets or it may have a separate unit trust operation in addition to its insurance operations.

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 interest such as long-term receivables (paragraph .22)?

In principal we support the proposal, however the distinction between long and short-term debt may not be that easily determined in practice.

This may also lead to different impairment amounts in the consolidated and separate financial statements due to IAS 39 being applicable to the financial instrument in the separate financial statements.

Additional comments

1. The exclusion from preparation of consolidated financial statements contained in IAS 27 (wholly owned subsidiary) should be extended to associates and joint ventures.

2. Our comments on IAS 27.12B also apply to associates and we believe the wisdom of including this paragraph should be reconsidered, or at the least be capable of being applied practically in all circumstances where it is applicable. In addition, it is not clear whether these rights should be taken into account or not in determining the portion of the associate to be equity accounted. It seems that the guidance on this issue as contained in SIC 33 has not been included in this standard.

3. Paragraph .05B does not require equity accounting when an entity operates under severe long-term restrictions on its ability to transfer funds to the investor. As noted above in our comment on paragraph .12A of IAS 27, the definition of significant influence does not require consideration of the ability to obtain benefits from the activities of an entity. This being the case, it suggests that the wording referred to in this paragraph should be deleted, alternatively that the definition of significant influence should be changed.

4. We believe that paragraph .06 should clarify the treatment of tax, seeing that different approaches are used; some account for the after tax profits, whereas others include the share of the associates tax in the entity's tax expense. We believe that the share of tax in the associate should not be considered to be part of the tax expense in the investor, and believe this issue should be clarified.

   In addition, as noted in our comment on paragraph .23 of IAS 27, we believe this paragraph should also deal with profits and losses that could arise from variations in interest, seeing that the last sentence implies these are to be included in equity, whereas we believe they should be included in the income statement. It appears that variations of interest might not have been considered when the last sentence was added to this paragraph.

5. As noted in our comment on paragraph .13 of IAS 27 we believe guidance is required as how the investment is to be accounted for if the investment is not sold within the twelve month period. The Board should also provide transitional provisions for entities who previously applied the exclusion from equity accounting in paragraph .08 (acquired and held with a view to subsequent disposal), but who

would own an associate for longer than 12 months at the time that the amendments become effective.

It is noted that this paragraph differs to the equivalent in IAS 27 in that it does not refer to the intention of management.

6. Paragraph .11 does not consider the possibility that the associate may move into the status of a joint venture or subsidiary rather than into an investment. This possibility should be provided for.

7. We argue that due to control (albeit joint), the parent's aggregate holding in an associate should include holdings through any joint venture.

8. We believe that the standard should clarify where the elimination is recorded. On downstream sales it must be recorded against the investment in the associate because there is no asset in the consolidated financial statements. However, on upstream sales it could be recorded against the investment or the asset itself. We believe that it should be recorded against the investment for consistency with downstream sales.

9. We do not agree with the proposal that the difference between the reporting periods of the associate and investor should be no more than three months. This may result in difficulties, as significant influence may not, practically, be sufficient to require an entity to change its reporting date. We understand that, in this context, reporting date is interpreted as year-end reporting date, as opposed to interim reporting date.

   In some jurisdictions, an entity may not be able to, by law, access or disclose certain price sensitive information. This may have an impact where there are significant transactions that occur between the associates reporting date and the investors' reporting date. An investor may not be able to disclose such information where it is price sensitive and such disclosure is in contravention of regulations. In addition, the investor may not be able, by law, to access such information.

   Accordingly the three month rule should be the expected situation, but with possible exceptions.

10. This paragraph seems to conflict with paragraph .08A. Paragraph .08A suggests that an entity who does not have any subsidiaries is to equity account its associates and might term the financial statements as consolidated. Paragraph .24A would not allow in this case for the separate financial statements to be termed as consolidated. This means that these paragraphs would require two sets of financial statements (one consolidated and one separate) when consolidated financial statements are not required. It is argued that if consolidated financial statements are not required that entities should be given the option of applying equity accounting in the separate financial statements.

11. In our view the disclosure requirements of the current paragraph .27(a), which is proposed to be deleted, is useful to users and should be reinstated.

    Paragraph .27 (a) (of the proposed amended standard) should be expanded, so that the fair values of unlisted associates are also disclosed and not only those that are quoted. This paragraph should also clarify whether the gross fair value of the associate should be disclosed or if only the investor's share of the fair value of the associate should be disclosed.

Paragraph .27 (b) (of the proposed amended standard) needs clarification. It is unclear whether the summarised financial information should be gross or net, and whether it should be individually or in groups. In our view the requirement should be to disclose summarised information with separate disclosure for larger associates. Summarised cashflow information should be included.

IAS 33 – EARNINGS PER SHARE

Question 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 based on a rebuttable presumption that the contracts will be settled in shares?

Option 1: We agree with the proposal.

Question 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 that 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 contingent share agreement, if later).*

Agreed. The proposed approach will make the calculations easier.

A view was also held that:

- This proposal is inconsistent with paragraph .31 which states that 'dilutive potential ordinary shares shall be deemed to have been converted …at the beginning of the period. The examples in the Appendix do not form part of the proposed standard and are at present inconsistent with the requirements of the proposed standard. The number of reporting periods (be it half-yearly or quarterly or monthly) in the financial year should not influence the measurement basis of earnings per share or any other measurement basis in the annual financial statements. As illustrated in example 7 it does not aid comparability if the year-end denominator is less than the denominator used in the final quarter because a different measurement basis has been applied to the full year calculation.

We therefore believe that the calculation of potential shares (warrants) in Example 12 of the Appendix is incorrect and should be reworked as set out below:

Full year 20X1 - Diluted EPS calculation

The incremental number of shares for warrants is stated as 27,884. This weighting calculation as indicated above is incorrect. The correct figure should be 14,913 as calculated below:

Warrants to buy 600,000 shares at 55 were outstanding at the beginning of the year on 1 January 20X1. These warrants were all exercised on 1 September 20X1. Hence, they were outstanding for eight (8) months of the financial year. The average share price for the period the options were outstanding is calculated by reference to the weighted average market prices of the shares outstanding as follows:

First quarter	49
Second quarter	60
1 July to 1 September	65
Therefore, weighted average is	

$$\frac{49 \times 3 + 60 \times 3 + 65 \times 2}{8} = 57.13$$

Deemed number of shares at full price = 600,000 x 55/57.13 = 577,630
Deemed issued at nil price = 600,000 – 577,630 = 22,370

Therefore, the incremental number of shares for warrants outstanding for 8 months is 22,370 x 8/12 = 14,913, that is, weighted for the portion of the period during which they were outstanding as set out in paragraphs .31 and .32.

- This proposal is inconsistent with paragraph .47 that states if the condition is based on an average of market prices over a period of time, the average for that period is used. The number of reporting periods (be it half-yearly or quarterly or monthly) in the financial year should not influence the measurement basis of earnings per share or any other measurement basis in the annual financial statements. Taken alone this statement is confusing because statements a) and c) in question 2 above naturally require the interim average market prices to have been used. If this statement is read alone there should be no difference in averaging market prices over the year to date and averaging market prices of interim periods.

- This proposal is inconsistent with paragraph .45 which states that contingently issuable shares are included from the beginning of the period and if the conditions are not met, the number of contingently issuable shares included in the diluted earnings per share calculation is based on the number of shares that would be issuable if the end of the period were the end of the contingency period. Taken together these two statements imply that the calculation should be done independently depending on whether the contingency conditions are met at the end of the interim reporting period or at the end of the year to date reporting period. It would not be correct to calculate the weighting for the year to date reporting purposes based on the weighted average of the interim figures. We therefore believe that the calculation of contingent shares in example 7 of the Appendix is incorrect and should be reworked as set out below:

Example 7 – Contingently issuable shares

Diluted earnings per share denominator:

Retail contingency

The weighted average number of shares for the retail contingency figure under the full year column should read 10,000 and not 6,250. It is not simply an average of the cumulative weighted average number of retail contingency shares outstanding at end of each quarter as set out in calculation (e). This is because 10,000 shares were issued at various dates (5,000 on 1 May and 5,000 on 1 September) during the year and should be weighted by reference to these dates from the beginning of the period in accordance with paragraph .45.

Proof:		Full year
Basic EPS – retail contingency		5,000
Diluted EPS – retail contingency		
10,000 outstanding for 4 months and 5,000 outstanding for 4 months		
10,000 x 4/12 + 5,000 x 4/12	=	5,000
Total for diluted EPS		10,000

Earnings contingency
Similarly the weighted average number of shares for the earnings contingency figure under the full year column should read 900,000 and not 300,000. This is because the conditions for issuing 900,000 contingently issuable shares were deemed to have been met by the year-end and, therefore, should be included from the beginning of the year for diluted EPS calculation in accordance with paragraph .45.

As a result of the above changes, the denominator of the diluted weighted average number of shares for the full year should be:

1,000,000 + 10,000 + 900,000 = 1,910,000

The diluted earnings per share for the full year should be:

2,900,000 / 1,910,000 = 1.52

Additional comments

1. Paragraph .02 in the existing standard has been deleted. This paragraph provided an exemption for presentation of earnings per share by a parent where both parent and group financial statements are presented. We do not believe that the disclosure of earnings per share by a parent, when such disclosure is also provided for the group, is meaningful. The parent may merely be an investment vehicle with the operations being housed in the subsidiaries.

2. The definition of contingently issuable ordinary shares limits them to situations where little or no cash is paid for the shares. We are not aware of why this paragraph was inserted and we encourage the Board to revise the definition to "contingently issuable ordinary shares, warrants and options are shares, warrants and options issuable (or exercisable) upon the satisfaction of certain conditions pursuant to a contingent share, warrant or option agreement." This would then subject warrants and options to (a) the contingency guidance to see if conditions are satisfied; and, if they are, to (b) anti-dilution provisions. This would be helpful in establishing the clarification provided in paragraph .44 regarding employee share options (which may involve payment of more than a small sum of money).

3. The last sentence of the proposed paragraph .13 should perhaps read: Any original issue discount or premium is amortised to retained earnings using the effective interest (or yield-to-maturity) method.

4. The proposed paragraphs .13-.16 discuss the impact of settlement of convertible preference shares, including their repurchase or early (induced) conversion, on the earnings per share calculation. The issue is fairly complex and is worth being illustrated by the way of an example in the Appendix B. The accounting treatment of such transactions is also not specifically addressed by any Standard. It is our understanding that all transactions involving convertible preference shares should be accounted for using the treasury share method. We believe it would be worth clarifying that measurement principle in a measurement standard. Further, convertible preference shares may include a liability component and then the accounting treatment of (early) settlement gain or loss might be different. We would appreciate more guidance with respect to this issue.

5. Paragraph .31 of IAS 33 states that the denominator must be adjusted for the number of shares that would be used on the conversion of all the potential shares into ordinary shares. Paragraph .32 explains that potential ordinary shares that are allowed to lapse or that are cancelled during the period are included in the denominator for the period during which they were outstanding. We disagree with this rule as potential ordinary shares that are never going to be issued, as ordinary shares are included in the calculation of diluted earnings per share. It is suggested that this is misleading, as the earnings of existing shareholders will not be diluted as these potential ordinary shares have lapsed.

6. In the case of employee share options, the entity may issue shares; alternatively a share purchase trust may already have shares it could transfer to employees when they can be exercised, or may purchase shares on the open market to meet the obligation to employees. This paragraph does not make a distinction between the various methods that can be used to satisfy share options. If the company is not going to issue any additional shares it is questioned why these should be taken into account in a diluted earnings per share calculation. Accordingly we believe this issue needs to be dealt with in the standard.

7. The wording in paragraph .51 (c) needs further consideration. At present it indicates that the presumption of settlement through shares may be overcome if past experience or a stated policy provides a reasonable basis to believe that the contract will be settled partially or wholly in cash. It then goes on to indicate that in such circumstances … the numerator shall be adjusted for any changes that would have resulted if the contract had been classified wholly as an asset or a liability. The second sentence does not result in a worst-case scenario being reflected in respect to possible dilution of earnings as it ignores the fact that some of the settlement may take place in the form of shares. It would be better to adjust the numerator in accordance with the extent of the expected method of settlement.

8. Paragraph .65 permits an entity to disclose amounts per share using a reported component of the income statement other than one required by the standard. There is no requirement to reconcile the component used to the one required by the standard. We recommend that such a reconciliation should be given since the reported component of income could be a before tax component but the one required by the standard is an after tax component. The reconciliation would aid transparency and avoid the need to indicate whether the numerator(s) is or (are) determined on a pre- or post-tax basis.

This paragraph also permits an entity to disclose amounts per share using a component of income that is not reported as a line item in the income statement. In such situations, the proposed standard requires a reconciliation of the component used to any line item in the income statement. We recommend that the component of income used in the numerator should be reconciled to the component required by the standard and not to any line item reported in the income statement.

9. The IASB is considering publishing application guidance illustrating the computation of earnings per share for a group as the sum of the earnings per share of each of its component units. This seems unnecessarily complex, requiring many allocations. Earnings per share for a group is not the sum of the earnings per share for each of the units, but rather is computed once for the group in total, the same way that earnings per share for an annual period is not the sum of the earnings per share for each quarter. If a subsidiary has issued warrants, options or other potentially dilutive instruments, the impact on net income for the group (via minority interest) can be computed. If the subsidiary's instruments are convertible into shares of the parent, the impact of assumed exercise on the subsidiary's net income could also be computed and adjusted. While recognising that the approach proposed is consistent with US GAAP (SFAS 128.156) we do not support the proposal requiring this complex computation.

   We believe that the IASB's desired approach - to reflect the dilution from potential ordinary shares - can be achieved by adjusting net income for the additional minority interest that would be created by the potential ordinary shares of a subsidiary (if they become interests in the subsidiary, joint venture or associate) or by considering them as potential ordinary shares of the parent, if they become interests in the parent.

10. We found the standard difficult to understand without the liberal number of examples given in the appendix. This indicates that it may be badly worded and that we may not have fully considered or understood the implications of the standard, particularly as there is no marked up version from the previous standard.

    We are generally concerned that the rules on calculation of the basic and diluted earnings per share figures are not consistent with the rules on classification of financial instruments. If it is determined that an instrument is, in substance, a liability (and will be settled in cash), that instrument should be ignored for the purpose of the diluted earnings per share calculation. If an instrument has both a liability and an equity component, the components must be separated for accounting purposes and their treatment for earnings per share purposes should follow their presentation under IAS 32. The examples attached to the Standard ignore the split presentation (and accounting) required by IAS 32. Similarly, options and warrants should be taken into consideration based on their classification, in accordance with the rules set out in IAS 32 and IAS 39.

11. The existing Standard lists the employee share plans and other share purchase plans as the examples of potential ordinary shares (paragraph .08(c)). The exposure draft drops this example. The example illustrates an important class of potentially dilutive instruments and should remain included in the revised Standard.

12. The proposed Standard does not address the issue of compulsorily convertible debentures. These are debentures that can only be converted into ordinary shares at, or by, a specified date. Commonly, they bear interest through to the conversion date. Should such debentures be classified as potential ordinary shares? They are often anti-dilutive, therefore would not be included in a diluted earnings per share figure. Or, do they rather represent ordinary shares and should be taken into the calculation of basic earnings per share? We would appreciate guidance with on this issue.

13. Additional guidance is needed to clarify that comparatives should be adjusted if application of a new standard changes the historical basis for calculating earnings per share. For example, guidance should be given for the adjustments required for preference shares set out in paragraphs .13-.16 and the weighting of interim periods rather than year-to-date periods could result in changes to the comparatives. A change in the basis of calculation on introduction of the new standard should be accounted for by restating the comparative figures for the preceding period and disclosing the effect of the adjustments on the earnings per share figures previously disclosed.

14. We recommend that example 12 should be expanded to show year-to-date earnings per share figures at quarter 2 and quarter 3.

15. Appendix B - It would be helpful to include a comprehensive disclosure example that covers, for example, the requirements of paragraph .65.

16. We would also appreciate guidance on how to include shares that will be issued as script dividends in the calculations of diluted earnings per share. The following example explains our problems. A company announces a dividend a month before its financial year-end, the dividend will be paid six weeks after year-end. Shareholders may elect to receive shares or cash. At the end of the financial year it is estimated that 80% of shareholders will elect to receive shares. The right to receive these shares should be included in the diluted earnings per share figure. The problem is how should these potential shares be included.

    - Not weighted at all as the earnings figure will not be changed at all when these shares are eventually issued.

    - Weight the shares for a period of time. The question then arises as to when the shares should be weighted from;

        - the date the dividend is declared;
        - the date by which the election to receive shares instead of cash must be made. If this were the case what would one do if this date were after the balance sheet date?

17. Furthermore how should the script dividend referred to above, issued at slightly below fair value (as a incentive to take up shares instead of cash), be treated in the calculation of the weighted average number of shares?

IAS 40 – INVESTMENT PROPERTY

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:
- *The rest of the definition of investment property is met, and*
- *The lessee uses the fair value model set out in IAS 40, paragraph .27 – .49?*

We agree. The requirement that classification as an investment property should only be allowed where the fair value model is used is appropriate in that the value, to the lessee, lies in the future receipt of rentals. Using the cost model would imply the purchase or production of an asset over which the entity has control. The entity, however, only has control in so far as its rights in terms of the lease are retained.

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

Yes, but we feel that a property interest needs to be defined. Under local legislation one can distinguish between a usufruct and a bare dominium.

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?

We agree. A change of this nature may give rise to a credibility gap particularly for a fairly new standard. Further, the ability to determine and understand the issues relating to the fair values of non-financial assets may be new to many preparers and users.

Additional comment

1. While we do not agree with the proposal in IAS 16 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, should this amendment be approved, we note that there is no similar requirement in IAS 40.

CONSEQUENTIAL AMENDMENTS

1. ***IAS 7 – Cash flow statements***

   Paragraph .26 - We believe that the word reporting should have been deleted in the second line.

2. ***IAS 12 – Income Taxes***

   Paragraph .69 and .77 - The requirement for tax assets and tax liabilities to be presented separately in the balance sheet has been deleted as well as the requirement to disclose the tax charge separately on the face of the income statement, as these requirements are already required in IAS 1. We believe that it is useful to include these requirements in both standards, as it results in greater ease of reference for the user.

3. ***IAS 31 Financial reporting of Interests in Joint Ventures***

   Paragraph .25 – .34 – Separate and group financial statements

   Two types of financial statements are seen to exist, namely group and separate financial statements. In IAS 31, the word consolidated has been removed but separate financial statements are referred to. This creates confusion, especially where the preparer is attempting to distinguish between the group and separate financial statements. Perhaps IAS 31 should refer to group versus separate financial statements in order to provide greater clarity (this primarily relates to 25 – 31 and paragraph .38 – .38A).

   Paragraph .42 - Does this disclosure relate to joint ventures that are excluded in terms of paragraph .03A? If so, it should be linked to paragraph .03A.

4. ***IAS 34 – Interim Financial Reporting***

   Paragraph .25 - The requirement to disclose unusual items had been deleted along with extraordinary items and fundamental errors in terms of the revisions to IAS. We believe that deleting the requirement to show unusual items was an error and that material items, by nature or amount (unusual items), should be disclosed separately in the interim report.

5. ***IAS 38 – Intangible Assets***

   Paragraph .02 - The paragraph still refers to International Accounting Standards. In line with the changes made in other standards, the words International Accounting should be deleted.

   Paragraph .07 - The first sentence no longer makes sense after the amendments. The word to at the beginning of line 3 should be deleted.

6. ***AS 41 – Agriculture***

   Paragraph .39 - The requirement to present biological assets separately on the face of the balance sheet has been deleted, as this requirement is already implicit in IAS 1. We believe that it is useful to include these requirements in both standards, as it results in greater ease of reference for the user.