1 Responses to Invitation to Comment and Other Comments

1.1 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)?

Answer to question 1
We believe that a true and fair override is necessary in a financial reporting framework. However, we do not agree with the changes proposed by the IASB and we have the following comments:

- We do not agree that the true and fair override should be conditioned upon the regulatory environment, as we believe that there should not be alternative treatment according to the regulatory requirements of the country where the financial statements are issued. It raises the possibility that an entity operating in multiple jurisdictions with different regulatory requirements would have different IFRS financial statements, both of which treat a material transaction in fundamentally different ways but somehow both give a true and fair view. The approach proposed in paragraph 15 of permitting regulatory limits to override requirements of IFRS and "curing" the problem with disclosure is entirely unsatisfactory.

- We believe that the proposed revisions to the wording regarding the true and fair override are not helpful in clarifying the extremely rare circumstances when such an override will be required. The proposed revisions appear likely to encourage more frequent overrides based on the Framework. We believe the Board should retain the current wording of IAS 1.16-18, which requires a conclusion that application of a standard will be misleading and clearly inappropriate. The Board may wish to strengthen the existing guidance by emphasising, perhaps in the Basis for Conclusion, that disagreement with the Board's conclusion in a standard, even if supported by an alternative analysis of the Framework, is not a sufficient basis for an override. An override would be expected only if an issue not addressed by the Board arose and the result of applying the Standard to this unanticipated event clearly is misleading.

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)?

Answer to question 2
Yes, we support the prohibition of presentation of income and expenses as 'extraordinary items'. We also believe that there is an urgent need to limit the present discretion for items to be presented as 'exceptional' or 'unusual' because these descriptions can be used to characterise items as arising from outside the ordinary activity of an enterprise, which seems inconsistent with the views expressed by the Board in proposed .A11-16.

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?

Answer to question 3
Yes, we support this proposal as it is consistent with IAS 10. We believe that agreement to refinance, or to reschedule payments that are completed after the balance sheet date is a post-balance

sheet event that changes, rather than confirms, circumstances existing at the balance sheet date. Therefore we view such events as non-adjusting events.

Question 4
Do you agree that:

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

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

  (i) the entity rectifies the breach within the period of grace; or

  (ii) when the financial statements are authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified (see proposed paragraphs 63 and 64)?

Answer to question 4(a)
Yes, we agree for the reason given in answer to question 3.

Answer to question 4(b)
We do not agree with the proposal in paragraph 63. We believe that the Board should clarify the principle upon which it is basing its guidance in respect of the classification of long-term liabilities where there is a breach of agreement is based. We suggest that a loan should continue to be classified as long-term if a refinancing agreement or a waiver is obtained before the release of the financial statements, if the grace period was in effect at the balance sheet date. In the event that refinancing or a waiver is not obtained before the release of the financial statements and the grace period does not extend beyond one year from the balance sheet date, the loan should be classified as current. We do not believe that classification in this case should be based on the probability of obtaining refinancing or a waiver.

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)?

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)?

Answer to question 5 and 6
We believe that the financial statements cannot be viewed as an absolute scientific measurement of a fixed amount at one point in time. Instead, the footnotes must contain explanatory material that adds a third dimension, and therefore context, in part by highlighting where judgments and estimates have been made, and what those judgments and estimates were. While we believe the IASB shares this view, based on the proposed disclosure requirements described in paragraphs 108 and 110, we do not agree with the specific requirements for the reasons described below.

We believe that paragraph 108 should, instead, be a general discussion of the need to provide context to financial statement users so that they can understand better what measurement decisions have been made. We believe the language in paragraph 80 is a better model for the wording of a requirement – e.g., an entity should be required to disclose the nature and amount of items whose measurement is impacted significantly by management judgment, as well as describing how that judgment has been applied, i.e. (what judgments were made).

A discussion of the reasons why management reached these conclusions in measuring these items is more appropriate where management provides commentary on financial results (e.g. Management's discussion and analysis).

We also encourage the IASB, when it is drafting standards, to identify what the Board believes are the critical judgments involved in applying the standard and highlighting these items as potential disclosure items. We would expect these to be concentrated in areas where judgment overrides normal expectations – for example, why a conclusion is reached that control exists without majority ownership (or vice versa).

We do not support the introduction of the requirements in paragraph 110 as drafted. The current wording could be read to require management to develop (and auditors to report on) a forecast of all possible changes in carrying amounts of assets and liabilities in the next twelve months due to actual results differing from assumptions, especially in light of the proposed requirement to disclose key assumptions "that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year." We believe that the IASB's objective can be addressed more appropriately by requiring identification of key assumptions and measurement uncertainties and of the assumptions used. This requirement also should be clarified as applying in the absence of specific requirements in an individual standard. We also encourage the IASB to consider this concern as it formulates standards, and seek to identify what disclosures it should require in a specific standard in order to address this general concern.

Other Comments

Paragraph 11
We believe that there is a need to address an issue of when financial statements can be referred to as in accordance with IFRS. In practice a number of financial statements are prepared "in accordance with IAS except for…". We think it is important for the IASB to recognise that, in some circumstances where IFRS has been used as the reporting framework subject to a non-pervasive,

discrete departure, it may be more useful to a financial statement user to describe the basis of preparation in that way rather than, for example, "in accordance with the accounting policies described in note 1." However, the IASB should distinguish between these limited cases and unacceptable reference to IFRS. The current version of IAS 1 describes in paragraph 14 a number of situations where "almost" compliance with IAS might have been claimed in the past, and we agree with IAS1.14 that in these cases claims of compliance with IAS, even if qualified, are not appropriate. We encourage the IASB to work with the IAASB in order to address this issue in a timely fashion.

Paragraphs 13-16
We believe that a disclosure should be required of situations where, even though there is no current period departure, an opening balance sheet contains amounts derived from a departure from an IFRS, where such a departure from IFRS will continue to impact the results and net assets of future financial statements of the entity.

Paragraph 21
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…".

Paragraph 33
We support the Board's proposal to require that the full set of comparatives be included and not just narratives and descriptions when it is relevant to understanding the current period.

Paragraph 63
We believe that the paragraph could be eliminated as discussed in our response to question 4(b). Also, the discussion in paragraphs 60-64 would be strengthened and seem less like a series of rules if it was set up as a subsection with a general principle articulated, e.g., that IAS 10 should be applied in determining whether an event should impact the classification of liabilities at the balance sheet date, with these examples presented as illustrations of the general principle.

Paragraph 72
An entity may issue shares (or other ownership interest) without immediate payment. We suggest adding a requirement to disclose the amount of any subscription receivable recorded and the terms of payments.

Paragraph 76
The list of items to be presented on the face of the income statement includes both *(f) profit and loss* and *(h) net profit and loss* with no explanation of what the difference between these two items is, although it is implied that it is only *(g) minority interest*. In order to make the elimination of extraordinary items effective and not just ban the use of the term but not the presentation, the IASB should specify explicitly the only items that can or must be present between (e) and (f).

The requirement to present results of operating activities on the face of the income statement has been removed. We understand that "operating activities" is not defined in IAS 1 and that the issue will likely be part of the performance reporting project, however, we suggest that the Board consider retaining the requirement and asking IFRIC to come up with an interpretation of the term in the meantime.

Paragraph 91(c)
We believe that the IASB should specify that the effects of changes in accounting policies should be shown separately from the effects of correction of errors.

Appendix
We suggest including in an appendix examples of financial statement formats as in current IAS 1. These examples provide very helpful illustrations.

Other

1 We believe that paragraph 12 should be retained. It is desirable to state clearly in a discussion of either "selection of accounting policies" or "true and fair override" that good disclosure does not fix bad accounting.

2 The draft does not address such issues as a classification of "exceptional items" and guidance regarding whether IFRS should permit the presentation of subtotals such as earnings before interest, taxes, depreciation and amortisation and earnings before interest and taxes. Although these issues are expected to be dealt with as part of the IASB's current project on reporting financial performance we still believe that clarification in IAS 1 would be useful given the current focus on appropriate and inappropriate performance measures.

3 The IASB should clarify whether revenue referred to in IAS 1 is as defined in IAS 18 (i.e. inclusive of dividends and interest) or whether there is a different definition.

1.2 **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?

Answer to question 1
Generally we are supportive of the IASB's efforts to remove options in standards. However, we do not see a compelling reason for elimination of the LIFO option. LIFO and FIFO are both conventions, and, unlike a number of other options, the impact of the LIFO convention is understood clearly and disclosures are required that allow users of financial statements to adjust the reported amounts if they disagree with the LIFO convention or to make the financial statements comparable to another company that does not use the LIFO convention. In light of the views of some that LIFO gives a better profit and loss measurement at least in certain circumstances, and recognising that LIFO information is not available otherwise, we support retaining the LIFO option subject to the same consistency of use and disclosure requirements as exist currently.

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?

Answer to question 2
Yes, we agree that if the circumstances of the original write-down no longer exist then the write-down should be reversed. This would be consistent with the objective of valuing inventory at the lower of cost and net realisable value.

Other Comments

Paragraph 1(c)
The exposure draft of IAS 2 proposes widening the scope exclusion by deleting the word "producers" in IAS 2.1(c). As a result, IAS 2 will not apply to inventories of agricultural and forest products and mineral ores to the extent that they are measured *at net realisable value (NRV)* in accordance with well-established practices in certain industries. This proposed drafting means that commodity

broker/dealers whose inventories are measured at *fair value* rather than NRV still would be required to follow IAS 2.

We would not encourage interpretation of the text of IAS 2.25-30 as encompassing fair value measurement of the type required by IAS 39. NRV, as discussed in IAS 2, implies a "lower of cost and NRV" measure rather than a mark-to-market approach. We believe that established practice for commodity broker/dealers more closely resembles mark-to-market accounting. Therefore, we recommend:

- not deleting the word "producers" i.e., keeping the original IAS 2.1(c);
- adding to the scope exclusion a separate line for "commodity broker/dealers whose inventories are measured at fair value" under IAS 39; and
- adding measurement guidance in IAS 39 for such commodity broker/dealers, which would require a modification to the scope of IAS 39.

Other
We think that deleting paragraphs 37-39 appears to eliminate the requirement to disclose cost of inventories recognised as an expense during the period, while the proposed IAS 1.83 and 1.87 do not require disclosure of the cost of goods sold when presenting expenses using the 'function of expense' method. We believe that such information is important and suggest requiring this disclosure either in IAS 1 or IAS 2.

1.3 IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

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)?

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

Answer to questions 1 and 2
Yes, we concur with both of the above proposals to eliminate the allowed alternative treatment of adjusting prior periods via a cumulative effect adjustment in opening retained earnings, generally for the reasons provided in the Basis of Conclusions. IAS emphasises the importance of comparability of financial information, both in its Framework (see, e.g., paragraphs 39-42) and its standards (e.g., the requirement for comparative information). We agree that the current allowed alternative reduces the comparability of financial information. However, we do have some concerns that this change will lead to an environment where restatements are regarded as normal, or at least not unusual, and lose the appropriately negative connotation that restatement has currently.

In respect of the elimination of the distinction between fundamental and other errors, we suggest that the IASB expand its discussion of the difference between correction of an error and revision of estimates, in part to emphasise that errors should not occur in properly prepared financial statements, and that correction of an error is necessary when and only when previous financial statements have been misstated materially. It may be helpful to require an assertion that the restatement is necessary because an error has been identified that makes previously published financial statements materially inaccurate.

We also suggest that the IASB add some wording to clarify that correction of an error may refer to disclosure amounts only (e.g., related party disclosures). Although note disclosure amounts are included in the definition of "financial statements" and therefore by implication, an error in a note should be treated in the same way as an error in one of the financial statement balances, we believe that explicit clarification would be useful.

Other Comments

Paragraphs 3, 21, 27, 28
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 generally does not involve an adjustment of the opening balance sheet (e.g. change in estimated useful life). Paragraphs 24-30, which describe the 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, these paragraphs should clarify 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.

Paragraph 4
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 the clarification of the status of these documents and their proposed "ranking" in the IASB hierarchy. We suggest that the IASB also state the status of the Basis for Conclusions.

Paragraph 6
We support the IASB's articulation of a hierarchy and its application to situations where a financial statement item is not addressed specifically by the standards or interpretations. However, we believe the IASB's proposed hierarchy should be changed in respect of situations where an item is excluded specifically from the scope of a relevant standard. If the hierarchy is applied to an item for which there is no relevant standard by virtue of a specific scope exclusion, then the effect will be to require application of that same standard. Clearly, scope exclusions should continue to be infrequent and be provided only in specific and limited circumstances, for example as in IAS 37 where insurance contract liabilities are excluded. In these cases, we would support looking first to paragraph 6(c), rephrased as "to the extent that these are not inconsistent with (a) and (b) of this paragraph."

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

Paragraphs 23(d), 30, 33 and 35(d)
A notion – "undue cost and effort" – has been used in the standard. In the absence of clarification or guidance, entities may interpret this as cost-benefit analysis. However, we understand from discussions at the IASB meetings that "undue cost and effort" implies the instances where even after investing a reasonable amount of cost and effort, the probability of arriving at reliable results would be low. Therefore, we recommend that the IASB discuss its intention in the standard or in the Basis for Conclusion to avoid misinterpretation.

We also suggest requiring disclosure of the reason why reclassification would cause undue cost and effort. If this change is not made, undue cost and effort might be cited as the reason in many cases, which would not be very helpful.

Paragraph 28
The IASB has dropped language currently included in IAS 8.28 regarding classification of the effect of a change in accounting estimate. We suggest that this guidance be retained.

Paragraph 34
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 that the wording be strengthened to emphasise that in the vast majority of cases this exemption is not expected to be taken.

1.4 IAS 10, Events After the Balance Sheet Date

Other Comments

Paragraphs 11 and 12
While we support the proposed conclusion, we believe 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 illustrate this with the example of dividends declared after the balance sheet date. In its current wording the guidance given is based on IAS 37 but does not say that IAS 37 always applies, therefore leaving the possibility of having to address other variants of the dividend question.

1.5 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?

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?

Answer to questions 1 and 2
We are not in favour of the proposed changes. Recording exchanges of property, plant and equipment at fair value also involves recognition of gains and losses on these transactions. We believe that the issues surrounding gain recognition for non-monetary transactions would be dealt with more effectively in conjunction with the Board's new project on revenue recognition, which should cover barter transactions. Until such time, the current position should be maintained in both IAS 16 and IAS 38 in respect of exchanges of assets to avoid multiple changes to the requirements for a major class of transaction.

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?

Answer to questions 3
We do not agree with the proposal. We believe that assets that have been removed from use should be measured at the lower of carrying value and recoverable amount. If an asset has been removed from use, its recoverable amount should be its net selling price (value in use will reflect the same cash flows from disposal). As the asset has been removed from use, we believe that allocation of cost is no longer appropriate and therefore depreciation should cease (impairment tests under IAS 36 would continue).

Our view is conditioned on the assets being removed from service. We believe that if assets continue to be used, even if they are designated as held for sale, they should continue to be depreciated. Depreciation is defined as "the systematic allocation…of an asset over its useful life." In our view, the useful life is the period of use; after an asset is removed from service, the rationale for allocation is removed. Instead, it should be measured at the lower of its carrying amount (either cost or revalued amount under the allowed alternative) and its recoverable amount.

We disagree with the proposal regarding temporarily idle assets where the idle time is planned. Therefore, where the assets are used in a seasonal industry or have scheduled "down" time for repair and maintenance, the pattern of depreciation selected should reflect the expected pattern of use. If idle time was not contemplated in the selection of the depreciation pattern, then we believe that temporarily idling assets should be cited as a situation triggering assessment of impairment and, if the depreciation policy used is time-based, depreciation should continue over the planned idle time.

Other Comments

Paragraph 4
The IASB has proposed a change to repeat the guidance in IAS 40.7(d), that investment property under construction is within the scope of IAS 16. However, the explanation added, "because the property does not yet satisfy the definition of "investment property"" in IAS 40 could be viewed is equally true about property, plant and equipment under construction in respect of IAS 16. We suggest that the Board add a discussion to IAS 16 clarifying that it applies to assets under construction and how the recognition guidance in IAS 16.7 should be applied to property, plant and equipment under construction.

Paragraph 15(b) and 17B
We noted that there is an inconsistency between these paragraphs regarding the treatment of income from incidental operations in bringing an asset to location or working condition. Paragraph 15(b) requires that such income be deducted from the cost of the asset, where paragraph 17B states that incidental income should be recorded in the income statement. We believe that the treatment in paragraph 17B is more appropriate and suggest that paragraph 15(b) be amended to conform.

Paragraph 17(a)
In order to clarify paragraph 17(a), "the costs of opening a new facility," we suggest adding examples such as feasibility studies or the cost of selecting, hiring and training employees.

Paragraphs 20A and 20B
The IASB should use this opportunity to clarify the interaction of IAS 16 and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* with respect to the impact on the cost of assets of the initial and subsequent measurement of provisions for site restoration costs. Some guidance is provided in IAS 37; and more can be inferred from the disclosure requirement of IAS 16, however, users of IAS would find it helpful to have all relevant guidance in IAS 16. The IASB should address:

- accounting for the unwinding of a discount on provisions (borrowing cost – see IAS 37.16);
- accounting for changes in the estimated cash flows due either to changes in estimates or changes in circumstances (e.g. new environmental laws requiring additional clean up);
- whether costs incurred after the date the asset is acquired are added to the cost, even if the assessed standard of performance is not enhanced (IAS 16.63(b) implies they are).

Also, it would be helpful for the Board to llustrate, perhaps in an example or appendix, how a change in estimate of the cost to remove/dismantle an asset should be handled. Possibilities include:

(a) current prices less depreciation to date,
(b) current prices discounted to the date of the change in estimate less depreciation to date,
(c) current prices discounted to the date of the initial recognition less depreciation to date, with an additional interest charge in the current period
(d) historic prices (i.e. prices as at the date of initial recognition) discounted to the date of the change in estimate less depreciation to date, with an inflation adjustment recognised in the income statement as part of the unwinding of the discount on the liability, or

(e) historic prices (i.e. prices as at the date of initial recognition) discounted to the date of the initial recognition less depreciation to date, with an inflation adjustment recognised in the income statement as part of the unwinding of the discount on the liability and an additional interest charge in the current period.

We believe that option *(c)* would be most appropriate.

Paragraph 21A
It would be helpful if the IASB would provide guidance for computing discounted cash flow projections in determining the fair value of assets. For example, should an entity apply the guidance in IAS 36.27-46?

Paragraphs 23 and 25
We believe that there may be unconsidered problems arising from the proposed change regarding the assessment of standard of performance immediately before expenditure. For example, if the standard of performance immediately before the expenditure is a change from the original assessment – e.g. software expected to be used to 2005 was not year 2000 compliant – would impairment be required to write off a portion of the cost because of the shortfall versus original expectations before capitalising costs incurred to enhance the standard of performance?

Also, this would seem to permit capitalisation of costs so long as the cash-generating unit including the asset is not impaired, and could encourage inappropriate capitalisation of repairs and maintenance as enhancing an asset. One possibility would be to limit capitalisation to situations where subsequent expenditure can be related to equal or greater economic benefits arising from that specific asset. As there is no discussion of this change in the Basis for Conclusions, it is difficult to assess the Board's intention.

Paragraph 39
As the paragraph currently reads, an entity "may" but is not required to, transfer a revaluation surplus into retained earnings when the surplus is realised. If an entity chooses not to transfer the surplus to retained earnings and later records an impairment loss on the revalued asset, the result could be that the impairment charge is recognised entirely in equity with no effect on the income statement. This is illustrated in the following example.

	With transfer	Without transfer
Cost	300	300
Revaluation	100	100
	400	400
Useful life = 10 years		
Year 3		
Carrying Value	280	280
Impairment of 90		
Impairment in reserve	70	90
Impairment in income statement	20	0

While we recognise that the IASB may not want to require the transfer of the revaluation surplus to retained earnings because of variations in local country regulations, we believe that IAS 16 should be modified to require the reversal of a revaluation surplus to be limited to the amount net of related depreciation.

Paragraph 46
We agree with the proposed change only in respect of situations where an entity has a policy of revaluation; in these cases the residual values should be based on current prices for those assets. However, if the assets are carried at historical cost then the use of residual values based on current values would seem to be inconsistent. This would lead to a depreciation charge, which would be a mixture of both historical and revaluation accounting. Therefore, we believe that if the cost method is being applied then no revaluation of the residual value should be allowed (although impairment accounting still would be required).

1.6 **IAS 17, Leases**

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

Answer to question 1
We agree with this proposal as it enables a company to better account for a lease according to its substance, especially in those circumstances where the risks and benefits of ownership are not all passed to the lessee (e.g., rights to the land).

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?

Answer to question 2
We agree with this proposal as it requires treatment of transaction costs that is consistent with other IAS (e.g., IAS 39). We note, however, that IAS 17 is silent on the treatment of transaction costs incurred by a lessee and believe that the Board should consider also providing guidance in this respect.

Other Comments

Paragraph 3
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 entered into, lease payments generally would not begin until the asset is constructed and made available to the lessee to use.

When applying the current definition for classification, in such cases the present value of the minimum lease payments are discounted back to the date of the lease agreement. Potentially, this can 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. Furthermore, 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 of "inception of a lease" 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 in the first case, or when the asset is acquired by the lessor or delivery of the asset to the lessee in the second case.

We also believe that the definition of contingent rent in IAS 17.3 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 referring specifically 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 flexibility to manipulate the lease classification as an operating versus finance lease, for example by linking lease payments to a variable rate of interest. The calculation of minimum lease payments should include those amounts that are known as of the lease inception date, including for example interest that is based on the variable market rate at inception.

US GAAP specifically addresses this issue and reaches the above conclusion in SFAS 29, an amendment to SFAS 13 (the US leasing standard). We believe the conclusion should be similar under both sets of accounting standards, as the underlying principles in IAS 17 and SFAS 13 are very similar.

As there is currently no transition guidance, IAS 8 must be applied. This would require retroactive application, and may therefore involve a reassessment of classification of leases entered into many years ago. We suggest that the Board comment on whether this is their intention and if so, how to deal with potential undue cost and effort.

Paragraph 11
We believe that the guidance in paragraphs 11A,B and C should be expanded to address other situations in which a lease agreement should be considered in components (e.g. lease of a building including leasehold improvements). This issue has also been discussed in the IFRIC's recent discussions on rights of use. We believe that additional guidance should be provided either in the proposed improvements or in the pending project on leases.

1.7 IAS 21, The Effects of Changes in 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 7-12 on how to determine what is an entity's functional currency?

Answer to question 1
We believe that the Board's focus on the primary economic environment in which the entity operates, rather than on the currency in which transactions are denominated, is an improvement that will focus on the substance – the most meaningful currency – rather than the currency in which an entity may choose to denominate its transactions.

However, we are concerned that the guidance in paragraph 9 (foreign operation) has some inconsistencies from the functional currency concept in paragraph 7. 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 USD and all its transactions may be in USD, including purchases from the parent company. Its primary economic environment may be the US environment using the guidance in paragraphs 7 and 8. However, it may source all of its product from the parent, remit proceeds to the parent and otherwise operate as a traditional 'branch'.

Under paragraph 9, the US operation 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 7 and 8 would override paragraph 9. We do not disagree with this conclusion, but we do believe that further clarification should be provided to explain that the 'economic environment' test should override the 'independence from parent' test in circumstances where there is conflict.

We believe paragraphs 7 through 12 should be improved by:

- explaining whether there is any hierarchy of factors between paragraphs 7 and 8, and if there is, what the reasons are behind it,
- rewording the introduction to paragraph 9 to explain that these are factors relevant in applying/interpreting the criteria in paragraphs 7 and 8 in the case of a foreign operation, and
- incorporating the logic of .A5 into paragraph 9(a). It might also be worthwhile to strengthen and further clarify the language of paragraph 9(a) by incorporating wording similar to that of paragraph 42(f)(2) of US SFAS 52 which states that: "the parent's currency generally would be the functional currency if the foreign entity is a device or shell corporation for holding investments, obligations, intangible assets, etc., that could readily be carried on the parent's or an affiliate's books."

We also believe that the proposed IAS 21 should include more practical guidance to help users apply the principles. For example, suppose a company engaged in mineral extraction has its operations in a country that does not consume much of the mineral itself. The selling prices are affected by an amalgam of economic forces in the producer countries as well as the consumer countries and the cost base is a mix of capital costs for equipment manufactured outside the country of operation, and local currency operating costs. The proposed guidance in IAS 21 does not address this or other similar situations.

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?

Answer to question 2

Yes, we do. As noted in the Basis for Conclusion (.A8 – .A10) an entity can have many different users of its financial statements who, for varying reasons, may want or need to have these financial statements presented in different currencies (e.g. local tax authorities, foreign lenders, local and international investors). The exposure draft's proposal will accommodate these information needs appropriately.

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?

Answer to question 3
We agree that the methods of translation should be the same, but we disagree with the proposed method.

We believe that the method of translating financial statements into the presentation currency should be the same as the method of translating foreign operations for consolidation purposes, on both conceptual and practical grounds:

- Conceptually, this approach acknowledges that each independent entity in a group has its own measurement currency, and that in all cases you are simply translating from that entity's measurement currency into a different presentation currency (from that entity's point of view); from reading paragraphs 15-17, this also seems to be the underlying principle upon which the revised standard is drafted. For example, if an entity's measurement currency is Euro and its financial statements will be translated into USD, whether the purpose of that translation is consolidation or presentation makes no difference from the point of view of assessing the performance of that entity.
- From a practical point of view, if the method of translation was different, this would be onerous for multinational groups. For example, suppose a parent domiciled in the UK has a subsidiary with a Euro measurement currency, and the consolidated financial statements will be presented in USD. If the translation methods are different, the subsidiary's financial statements would have to be translated into GBP and then into USD for presentation purposes. However, if the methods are the same, the subsidiary's financial statements can be translated into USD directly.

Regarding the method of translation, we believe that it appears self-contradictory and may not produce the result intended by paragraph 39(b). Paragraph 37(c) says that exchange differences "resulting" from translation shall be recorded in a separate component of equity. However, the requirement in paragraph 37(a) that equity items should be translated at the closing rate means that this may not be possible mathematically. For example, say a reporting entity's balance sheet contains only non-monetary assets of 100 and retained earnings of 100 (in its functional currency). Assume that the only thing that happens during the year is that the exchange rate (to the presentation currency) changes from 4.0 to 3.0. The entity's closing balance sheet will now show assets of 33 and retained earnings of 33 (compared with assets of 25 and retained earnings of 25 last year). Because retained earnings have been translated at the closing rate there is no exchange difference to record in a separate component of equity whereas current practice and common sense would suggest there was a gain of 8 to be included there.

However, we believe that the decision to translate equity items at historical or closing rate should also consider the performance-reporting project. The question is whether the exchange differences reported directly in equity be allocated to captions within equity (e.g., so as to state share capital at the closing rate) or presented as a single reserve. If the cumulative translation adjustment were to continue to be recycled when the subsidiary is disposed, then the difference should *not* be allocated among all equity captions but should be kept in a single reserve. The question would need to be re-addressed if a decision is made to no longer recycle currency gains/losses.

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

Answer to question 4
We agree with the proposal, as we believe that the option is no longer necessary.

Question 5
Do you agree that:
a) goodwill and
b) fair value adjustments to assets and liabilities
that arise on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation and translated at the closing rate?

Answer to question 5
We support the Board's effort to eliminate options and believe that, while valid arguments can be made to support each of the alternatives permitted currently under IAS 21, it is preferable to require one approach. Like the Board we believe the balance of arguments weighs in favour of the approach proposed, but also support reviewing this conclusion as part of the Board's business combinations project, as indicated in paragraph .A27. Note that in the case where a parent acquires a multinational group of entities this would appear to require that goodwill be allocated to the underlying operations rather than held in the currency of the prior parent. For example, a Dutch company may acquire a French group with operations in the United States and Switzerland. In this case, would the goodwill be recorded as a French asset? Or also allocated to the Swiss and US operations? It would be helpful to illustrate this in an example.

Other Comments

Paragraph 6
We recommend clarifying that the definition of a foreign operation does not require it to be a separate legal entity or a division as long as it has separate operations, books and records. This clarification is important, taking into account that some wording, for example, references to inclusion by consolidation in paragraphs 41-45, does not cater for branches.

Paragraphs 7 and 9
We believe it is 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.

Paragraph 14
We support the introduction of monetary items and the examples provided. We also encourage the Board to clarify that an equity security investment is non-monetary: while its value can be measured as a determinable amount of money, it is not a right to receive that amount of money. Conversely, if amounts prepaid for goods and services are refundable they do represent the right to receive a fixed amount or determinable amount of money and they are monetary.

Paragraph 24
We support the Board's clarification of the treatment to be adopted when exchangeability of currencies is lacking temporarily.

Paragraph 31
We see no conceptual basis for the Board's conclusion that a monetary item that is not denominated in the functional currency of either the reporting entity or the foreign operation should not be reclassified to equity as this item is a part of the net investment in the operation.

Paragraph 46 and 47
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.

Appendix, paragraph A13
We strongly encourage the Board to retain this explanation in the Basis for Conclusion.

1.8 **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 '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'.

Answer to question 1
We do not agree with the Board's proposal that disclosure of executive and non-executive management compensation should not be required, at least by companies with listed debt or equity. While we have sympathy with the privacy rationale for the exemption, as provided in the Basis for Conclusions, we would prefer an approach that would allow aggregation of amounts to the extent

necessary to avoid specific breaches of national privacy requirements. As the privacy concerns raised may be greater for privately held companies, the Board may wish to limit a requirement to entities who are required to present segment and earnings per share disclosures by IAS 14 and IAS 33.

We also are concerned with the view expressed in .A3(a) in the Basis for Conclusions that corporate governance processes may remove the need for related party disclosures. While this may be true in some jurisdictions, we wonder whether, in the current environment, it is wise to rely on such processes that are subject to widespread critique and review.

We believe that disclosure of compensatory arrangements should be required for those identified as related parties in paragraph 9. We do not believe that further definition of management would be necessary.

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?

Answer to question 2
No, we believe such disclosures should be required. We do not support the Board's proposals largely for the reasons cited by the dissenters in the Basis for Conclusion.

Other Comments

Paragraphs 12 and 13
It is unclear if this requirement would apply to the consolidated financial statements or whether the exemption in paragraph 4 would apply in respect of entities consolidated. We believe that disclosures should be required only as follows: a parent needs to disclose unconsolidated subsidiaries; a subsidiary needs to disclose the name of its parent.

Other
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.

1.9 **IAS 27, Consolidation and Separate Financial Statements**

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

Answer to question 1
Yes, we agree; some countries permit or require presentation of unconsolidated financial statements using IAS, and more are expected to do so in the future. We believe the requirements of paragraph 8 will allow entities to prepare IAS-based separate company financial statements in only those circumstances where they will be appropriate.

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

Answer to question 2
We strongly disagree with the IASB's proposal to change the presentation of minority interest without a comprehensive debate around the related consequential impacts of this decision. The IASB's proposed change in classification may be viewed as confirmation that the IASB embraces an economic entity approach to consolidated financial statements and that a number of the interpretive issues above must be answered within that conceptual framework, which could lead to significant changes in reporting even though the IASB has said that it does not intend currently to change recognition or measurement guidance.
For example, equity classification of minority interests implies that:

- a parent would not recognise a gain or loss in the income statement when it disposed of a portion of its investment in a subsidiary, so long as it maintained a majority stake;
- the Board does not view equity accounting as one-line consolidation, as the one-line consolidation view would dictate that there be no difference in net income between equity accounting and full consolidation, which would not be the case if this change is adopted;
- derivatives on minority interests would be treated as equity instruments with gains and losses recorded directly in equity; and
- the income statement presentation of minority interests would be inconsistent with its balance sheet presentation.

We have significant concerns about equity classification being achieved by default, i.e., by virtue of not satisfying the definition of a liability. Further, while we acknowledge that minority interest is not clearly a liability as defined in the Framework, we also note that minority interest is not clearly equity as defined in paragraph 49(c) of the Framework: "the residual interest in assets of the enterprise after deducting all its liabilities" because the *enterprise* could be viewed as being the parent company enterprise. Holders of minority shares have rights very distinct from the shareholders of the parent. If the consolidated financial statements are prepared for the use of the parent enterprise shareholders, is it really appropriate to put minority shareholders on an equal footing, when they have a subordinate standing?

We strongly encourage the IASB not to address minority interest accounting in a piecemeal fashion, as it proposes to do. Therefore we believe that the IASB should not, at this time, change the presentation of minority interest, but rather should wait until it can address all aspects of this issue comprehensively, with appropriate opportunity for public input.

Question 3
Do you agree that investments in subsidiaries, jointly controlled entities and associates that are consolidated, proportionally 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?

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?

Answer to question 3
We believe that investments in subsidiaries should be required to be accounted for at cost in an entity's separate financial statements, rather than permitting or requiring measurement at fair value under IAS 39. Generally, we believe the IASB should strive to eliminate options. If the focus of separate company financial statements is on the legal entity alone, we believe measurement at cost is more consistent with that focus, rather than mixing in valuation adjustments relating to other entities.

As cost measurement requires assessment for impairment, losses would not be masked. We do not believe the treatment in consolidated and separate financial statements must be conformed.

Other Comments

Paragraph 12A
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.

Paragraphs 12B and 15A
Withdrawing SIC-33 and including only its conclusion in IAS 27 means that the examples included in SIC-33 will not be available any longer. We feel that the examples are helpful in understanding the SIC, especially as it is a relatively new interpretation, and therefore we suggest that they be included in the amended standard.

Paragraph 13A
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 that this 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% or more of the estimated fair value. 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% or less.

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.

Paragraph 29B
As currently drafted, dividends paid out of pre-acquisition profit are recognised as a reduction of the cost of the investment. We believe that this approach reflects the legal form rather than the substance, as in substance the carrying amount of the investment would only be reduced in the case of impairment.

Paragraph 32
We believe disclosure should be made about the specific impact of potential voting rights. Therefore we suggest a disclosure requirements be added to paragraph 32 to discuss:

- when majority ownership does not provide control because of potential voting rights held by others; or
- when control exists despite a current lack of majority ownership due to potential voting rights; and
- a general description of the terms of potential voting rights.

1.10 **IAS 28, Accounting for Investments in Associates**

Question 1
Do you agree that IAS 28 and IAS 31 should not apply to investments that otherwise would be associates or joint ventures held by venture capital organisations, mutual funds, unit trusts and similar entities if these investments are measured at fair value in accordance with IAS 39, when such measurement is well-established practice in those industries?

Answer to question 1
We support the basic concept of a fair value alternative for investments held by entities that manage and wish to report on a fair value basis, so long as that fair value approach is applied to substantially all of the investments for the reasons expressed in our comment on IAS 27.13A above. However, we do not support the IASB's proposal as drafted for several reasons. First, we believe that the limit of eligibility for this option should not be based on a distinction between associates and subsidiaries. Instead, we believe that the distinction should be made on the basis of the use of the asset – whether it is held for use in the operations of the business, or whether it is held for investment. Second, we do not support making the option available on the basis of the type of organisation; rather, we think it should be applied for certain types of activities. The distinction between property held for use and held for investment, and accounted for under IAS 16 or IAS 40, illustrates both these points. IAS 40 is not limited to investment property companies; instead it applies to investment properties held by any type of organisation. IAS 40 creates an optional fair value model for properties based on their use within an organisation, and we believe a similar approach should be adopted for non-real estate investments.

As currently drafted, the exemption applies to "venture capital organisations, mutual funds, unit trusts and similar entities." This would condition use of the exemption upon the designation of the type of entity, not the type of activity conducted. To date, the IASB has not provided industry-based exemptions based on a type of entity, an approach we support strongly. The IASB should revise its approach, as discussed above.

Therefore, we believe that an exemption should be provided in both IAS 27 and IAS 28 for investments held as part of a venture capital type activity where substantially all investments that are part of that activity are or will be measured and reported on a fair value basis. We also suggest clarifying that this treatment would flow into the consolidated financial statements of a group within which the activity is conducted (eg, for a venture capital unit within a bancassurance group).

The current drafting also conditions use of the fair value option on "well established practice" in venture capital, mutual fund, unit trust and similar industries. Currently, venture capital investments are not always measured only at fair value; instead, they may be measured at a mix of fair value or cost, depending upon the state of development of the investments, whether or not the investments are listed, and current reporting practices in the local environment. While we believe use of a fair value option should be conditioned on use of fair value for substantially all investments (see comments on IAS 27.13A above) we believe the IASB should not constrain adoption of this policy on the current state of development of industry practices in individual countries. Therefore we suggest deleting the reference to well-established practices in certain industries.

We also note that the proposed requirement to recognise unrealised gains and losses in the income statement may seem inconsistent with IAS 39 requirements as these investments seem to qualify more as available-for-sale (with fair value change included in equity) than as trading. We suggest discussing the reasons for the requirement to designate this investment at fair value with changes flowing through income (as trading) in the Basis for Conclusions.

Question 2
Do you agree that the amount to be reduced to nil when an associate incurs losses should include not only investments in the equity of the associate but also other interests such as long-term receivables?

Answer to question 2
Yes, we support the IASB's proposal as we believe that other interests, such as long-term receivables, in substance form part of an entity's investment in associate and therefore should be measured in the same way as other elements of an investment; it also is consistent with the approach of classifying such interests as a part of net investment in a foreign entity in IAS 21.

Other Comments

Paragraphs 3 and 4
An associate is defined as an entity in which the investor has significant influence. The standard does not distinguish between the passive holding with an ability to influence and the actual exercise of influence. To date we have applied IAS 28 as based on the ability to, rather than exertion of, significant influence, although there has been some debate about this. We suggest that the Board confirm this interpretation; it would be helpful to have an explanation of the Board's view, possibly in the Basis for Conclusions.

Paragraph 6
IAS 27 and 28 do not address accounting by an investor for dilution gains and losses that result from transactions between a subsidiary or associate and its owners. This is a practice issue where guidance should be provided.

Paragraph 16B
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.

Paragraph 20
We support the Board's revision to eliminate the practicability exception with respect to conforming accounting policies of an investor and an associate. The current wording is subject to different interpretations in different industries and jurisdictions.

Other
A number of paragraphs in IAS 28 parallel matching paragraphs in IAS 27. Comments we raised in respect of IAS 27 apply equally to their counterparts in IAS 28, including

- disclosure regarding the impact of potential voting rights; and
- IAS 28.5A wording.

1.11 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 per share based on a rebuttable presumption that the contracts will be settled in shares?

Answer to question 1
Yes, we agree with the proposal, as it is based on an appropriate assessment of the dilution's probability and is consistent with the notion of dilution.

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 they were outstanding (ie without regard for the diluted earnings per share information reported during the interim periods).*
- *The number of potential ordinary shares is computed using the average market price during the interim periods reported upon, rather than using the average market price during the year-to-date period.*
- *Contingently issuable shares are weighted for the interim periods in which they were included in the computation of diluted earnings per share, rather than being included in the computation of diluted earnings per share (if the conditions are satisfied) from the beginning of the year-to-date reporting period (or from the date of the contingent share agreement, if later).*

Answer to question 2
We recognise that the approach proposed will achieve convergence with US GAAP but note that it diverges from current UK practice. One possible result is that the frequency of interim reporting will impact EPS. Using the warrant data from example 12, an entity that reports on a quarterly basis will include 12,500 shares with respect to the first half-year. However, an entity reporting on a semi-annual basis would include 0, as the year-to-date average of the quarterly share prices of 49 and 60 is 54.5, which is anti-dilutive. This is inconsistent with the principle that frequency of reporting should not impact measurement (IAS 35.28).

We suggest that the IASB not make its proposed changes but rather revisit this as part of the convergence project with the intent of aligning practice on the best possible outcome.

Other Comments

Paragraph 4
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 was done and we encourage the Board to revise the definition to be "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 determine 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).

Paragraphs 8 and 26
We believe that the term "profit or loss from continuing operations" should be defined. Continuing operations could be interpreted in different ways, and although paragraph 38 gives the answer, a definition would be best. At the same time it should be clarified that it is actually the net profit or loss from continuing operations, i.e. after tax and minority interest.

Paragraphs 8, 26 and 56
We believe that the Board should clarify that an entity shall restate EPS to present separate EPS from continuing and discontinuing operations by adjusting the numerator when, in accordance with IAS 35, it restated comparatives for discontinuing operations.

Appendix A9(a)

The IASB is considering publishing application guidance illustrating the computation of EPS for a group as the sum of the EPS of each of its component units. This seems unnecessarily complex, requiring many allocations. EPS for a group is not the sum of the EPS for each of the units, but rather is computed once for the group in total, the same way that EPS for an annual period is not the sum of the EPS 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 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.

Appendix B, example 12

We suggest rewording slightly the note to the example to address the following inaccuracy. The example implies that dilution/anti-dilution rests on whether the control number is negative or positive. Instead, if the yield on the convertible is less than the EPS (the income statement impact/number of incremental shares) then it also may be anti-dilutive.

1.12 **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:
(f) the rest of the definition of investment property is met; and
(g) the lessee uses the fair value model set out in IAS 40, paragraphs 27-49?

Answer to question 1

We agree with the proposal as a leased property may be held to earn rentals or for capital appreciation purposes and the Board's proposed approach will permit better reporting of such activity. We also believe that clarification should be provided in respect of what asset is being recorded at fair value (i.e. is it the fair value of the contract or the property?).

Question 2

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

Answer to question 2

We agree that the exception is a practical way of addressing the situation where substantially all of the risks and benefits of use of a leased property are with the lessee and the leased property otherwise would qualify as an investment property. We agree with the proposal even though this could (presumably) result in the same leased asset being recorded on the balance sheets of both the lessor (by following operating lease accounting rules under IAS 17.41) and the lessee (by following finance lease accounting rules under IAS 17.12).

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?

Answer to question 3
We agree with the IASB's view that IAS 40 has not been in use long enough to encourage widespread development and reliable fair values of investment properties on a regular basis.

At present the situation for tangible fixed assets in many jurisdictions probably merits the IASB's proposed position, and presumably an entity holding an investment property is able to determine fair value information.

1.13 Proposed Consequential Amendments to IASs and SIC Interpretations

1.13.1 IAS 19, Employee Benefits

Paragraphs 143 and 151
As noted in our comments on IAS 24, we believe disclosure should be required for amounts, including termination benefits, paid to management described in IAS 24.9(d).

1.13.2 IAS 31, Financial Reporting of Interest in Joint Ventures

Paragraph 3A
See our comment on IAS 27, paragraph 12A.

1.13.3 IAS 38, Intangible assets

Paragraph 93
See our comment on IAS 16, paragraph 46.

1.13.4 IAS 40, Investment Property

Paragraph 21A
We believe that it would be better to conform guidance from IAS 22.24 to look to the fair value of the item received only if the fair value of the item surrendered is not reliably measurable instead of reference to "more clearly evident."

1.13.5 Other

IAS 12.62, IAS 19.23 and 19.131, IAS 34.17
We suggest that the references in these paragraphs to "standards" be changed to refer to "IFRS" in order to capture SICs as well.

2 Drafting Comments

2.1 IAS 1, Presentation of Financial Statements

Paragraph 1 and throughout IAS 1, e.g. paragraph 100
We believe that the universal definition of IFRS provided in the Preface which incorporates IFRS, IAS, SICs, and interpretations issued by IFRIC should be introduced/cross-referenced once at the beginning of IAS 1 and then the standards and interpretations should be referred to as IFRS rather than referring in most (but not all) places to IFRS and interpretations. See, for example paragraphs 7(c) and 9 in contrast with paragraph 11.

Paragraphs 10, 11, 43, 97(b) and 99.
We suggest removing reference to Interpretations since the Preface defines IFRSs as including Interpretations.

Paragraph 36(a)
We suggest rephrasing the paragraph as "the reason why reclassification would have caused undue cost and effort." If this change is not made, undue cost and effort may be cited as the reason, which is not helpful.

Paragraph 48
We suggest deleting from "because…" to the end, as it could be read to force assessment of materiality of 52 weeks versus 365 days. We also suggest adding the example of "or the last Saturday in a particular month" meaning that from time to time the period will last 53 weeks per year.

Paragraph 65(o)
We think it would be better to refer to issued capital and reserves attributable to owners of the *reporting enterprise* rather than the *parent* as the reporting enterprise may have a parent.

Paragraph 71(b)
We suggest excluding related party information as an example of a sub-class as it is covered by IAS 24, especially once the related party reference is removed from new paragraph 70. We recommend that transactions with related parties are classified according to their nature and included with similar transactions.

Paragraph 71(d)
We suggest including deferred tax as an example of a sub-class as it is likely to be a substantial provision.

Paragraphs 77 and 85
We suggest eliminating the following inconsistency between paragraphs: IAS 1.77 refers to frequency, risk and predictability, while paragraph 85 refers to frequency, potential for gain or loss and predictability.

Paragraph 82(e)
We suggest deleting discontinuing operation as a potential disclosure item as this is now required if the definition (including materiality) of a discontinuing operation is met.

Paragraph 87
We suggest deleting the phrase “but the allocation of costs to functions can be arbitrary…” as it can be read as giving permission for an arbitrary allocation.

Paragraph 91
We believe the IASB should clarify whether “profit and loss” in paragraph 91(a) refers to IAS 1.76(f) or (h). In our view, it is most appropriate to start with 1.76(h), net profit after minority interest.

Paragraph 102
We do not understand this paragraph; it seems to suggest that accounting policies may be a new component of financial statements other than a primary statement (e.g. balance sheet, income statement) or footnotes. Accounting policies should form part of the notes (e.g. note 1).

Appendix A, A24(c)
The cross reference in this paragraph appears incorrect.

2.2 **IAS 2, Inventories**

Paragraph 1(c)
We suggest removing the comma after words “forest product.”

Other
We suggest adding a sentence to IAS 16 to specify that, similarly to IAS 18.11, where payment for an item is deferred beyond normal credit terms, any difference between the cash price and the amount paid should be recognised as interest over the period of credit.

2.3 **IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors**

Paragraph 5(b)(iv)
We believe that the reference to prudence might give the wrong impression. In order to avoid this it should be linked to the discussion in paragraphs 31 and 37 of the Framework to avoid implying excessive conservative bias that overrides neutrality of the information. For example, paragraph 37 uses the word “prudent” in reference to providing guidance for selection of accounting policies.

Paragraph 11
We suggest modifying the drafting to focus on the point in 11(b) as a relevant principle. The point in 11(a) is a comment that the difference in substance determines if a transaction is new. As phrased currently 11(a) suggests transactions that appear to be the same often have different substance. While the IASB may want to remind users to consider this possibility, we believe it is more appropriate as guidance rather than as a basic principle.

Paragraph 19
We believe that the paragraph should refer to Standards and Interpretations, not just Standards.

Paragraph 27
The paragraph requires that a prospective change in accounting estimate always be recognised in profit and loss. However, for some items changes in book value are recorded directly in equity, for example, the change in fair value of a security classified as available for sale. Accordingly, we suggest amending paragraph 26 so that the effect of a change in accounting estimate of certain balance sheet items would be recognised prospectively in equity rather than in the income statement.

Paragraph 32(b)
The wording appears unclear. We suggest rewording the paragraph as "…the opening balance of retained earnings <u>of the earliest period presented</u>."

2.4 IAS 16, Property, Plant and Equipment

Paragraphs 9 and 10
We do not see any reason for deleting these paragraphs. As we have found them useful in the past, we suggest either retaining paragraphs 9 and 10, or explaining why they were deleted in the Basis for Conclusions.

Paragraphs 16A, 21 and 26
The IASB should provide clarification of the phrase "more clearly evident" used in paragraphs 16A, 21 and 26 in IAS 16, paragraphs 26 and 34 in IAS 38 and paragraph 21A in IAS 40. The proposed paragraph 21 states *inter alia* that when an item of property, plant and equipment is acquired in exchange of another item of property, plant and equipment or other asset "the cost of such an item is measured at the fair value of the asset given up. The fair value of the asset received is used to measure its cost if it **is more clearly evident** than the fair value of the asset given up [emphasis added]." The IASB should, either in guidance material or in its Basis for Conclusions, clarify whether this phrase means "*more easily available*" or "*more accurate valuation*" or "*most reliable method.*" The IASB also should clarify if it intends this guidance to be different from that in IAS 22.24, which looks to measure fair value based on assets received only if the fair value of the item surrendered is not measurable reliably.

Paragraph 17B
We suggest linking this paragraph with paragraph 59 to clarify that where assets are used in producing incremental revenue they are depreciated/amortised in that time period.

Paragraph 20A
We suggest including a reference also to paragraph 15A.

Paragraph 20B
We suggest bringing the following illustrations from paragraph 45 forward to this paragraph to show that it is the actual value of land being consumed, not land being used for portion of its life.

- Landfill –the usefulness of land is depleted and it has no use to others; (the Board may wish to consider whether it can qualify as a right to use a landfill and account for this right as an intangible asset under IAS 38 rather than for "consumption" of the land itself).
- Quarry/strip mining/oil and gas extraction – any remediation cost relates to removal activity and is a part of the cost of what is extracted rather than part of cost of land, which remains the same.

Paragraph 53A
Proposed paragraph 53A states “compensation from third parties…shall be recognised in the income statement in the period in which it is received.” We believe that the word “received” should be replaced with “receivable” to be consistent with the current SIC-14, which uses the treatment of contingent assets under IAS 37 as its basis for conclusion. If the Board’s intention is to account for such compensation on a cash basis, the treatment would be in contradiction with IAS 37 which states that “…when realisation of income is virtually certain, the related asset is no longer a contingent asset and should be recognised.”

Paragraph 58
The drafting of paragraph 58 might be improved if it was changed to read “… applies the criteria in IAS 18 … for recognising revenue from the sale of goods, <u>unless the transaction also involves a leaseback, in which case</u> IAS 17… applies.”

Paragraph 58A
We believe that the last sentence should be aligned with IAS 18.11 to be consistent with both IAS 18 and IAS 39.

Paragraph 60(a)
The proposed wording of this paragraph appears to be inconsistent with paragraph 34, which states that if an item is revalued, the entire class is revalued. We suggest that paragraph 60(a) be reworded to conform to paragraph 34.

2.5 **IAS 17, Leases**

Paragraph 11A
We suggest deleting the end of the first sentence from “unless title…”. If title to both elements passes, both elements would be classified as a finance lease whether analysed as one or two leases.

Paragraph 11B
Is the phrase “up-front payment” used parenthetically described or defined anywhere? Its meaning is not clear in this context.

While paragraphs .A3-.A4 in the Basis for Conclusion describe the Board’s logic for requiring an inseparable lease to be accounted for as a finance lease, the drafting ends up as a series of rules rather than a general approach. We suggest that the IASB revise the wording to articulate a general principle: if the relative fair value of land and building cannot be allocated reliably, the classification of the property should be determined by analysing the lease payments in respect of the building alone.

Paragraph 11C
IFRS do not apply to immaterial items; therefore this paragraph is not needed as it implies somehow that IFRS generally do specify the accounting for immaterial items. Paragraph .A6 of the Basis for Conclusions explains the origin in national standards that exempt leases where the land element is small. The Board may wish, perhaps in the interest of convergence, to address situations where the land element is “small” in which case a rule of thumb quantification (e.g. less than 10-15%) should

be introduced. Creating an exception for immaterial items do not actually provide any exemption and the Board should address directly whether or not it is providing an exception.

Paragraph 29A
This paragraph as drafted conflicts with paragraph 34 because it specified the treatment for all initial direct costs, but then paragraph 34 introduces an exception for initial direct costs incurred by manufacturer or dealer lessors. This potential conflict could be avoided by modifying the drafting as follows: "for finance leases <u>other than those involving manufacturer or dealer lessors</u>, these initial costs …". We also recommend adding the words "on the same basis as the finance lease income" to the last sentence of the paragraph to clarify on what basis to recognise the capitalised initial direct costs.

2.6 **IAS 21, The Effects of Changes in Exchange Rates**

Paragraph 2
We believe that the relationship with derivative transactions is unclear as set out in the paragraph and suggest redrafting to state the following hierarchy:
(a) initial measurement should be done in accordance with IAS 39;
(b) subsequent measurement should be done in accordance with IAS 39 and IAS 21 if a derivative is settled in a foreign currency; and
(c) translation of the financial statements to the presentation currency should be done in accordance with IAS 21.

Paragraph 6
We suggest that an exchange difference should be defined by reference to changes in spot rates – i.e., it should exclude forward points, as these are interest.

Paragraph 8
To clarify the Board's objective, expressed in the Basis for Conclusion (last sentence in paragraph .A4), we suggest rewording the beginning of paragraph 8 to read, "other factors of lesser importance also may provide…".

Paragraph 10
We believe that management always must use its judgement to determine the functional currency that most faithfully represents economic effects, not just in cases when indicators are mixed. Therefore we suggest the following rewording of the paragraph: "… management must weigh evidence in order to determine the functional currency…"

Paragraph 40(b)
We believe that consequential amendments to IAS 29.8 may be required.

Paragraphs 53 and 55
We agree with the Board's intention to permit use of convenience translations so long as they are labelled clearly as supplementary information not presented in according with IFRS. However, the drafting of paragraph 53 should be deleted. It is not appropriate to single out certain paragraphs as required – somehow it implies that other paragraphs in this or other standards are less required. We

suggest deleting paragraph 53 and revising reference in paragraph 55 to be "the requirements of paragraphs 37 and 40 are not met…"

Other
We have found the Appendix to SIC-19 helpful and therefore suggest that the Board add an Appendix to IAS 21 illustrating the application of the principles for determining functional currency to several more complex situations.

2.7 IAS 24, Related Party Disclosures

Paragraph 2
If the Board decides to retain the exemption for management compensation, the wording of this paragraph should be revised so that these items are identified clearly as an exemption. This will remove any questions as to whether the parties involved are indeed related parties and also make clear that this is the only exemption provided.

Paragraph 3
If the Board retains this exemption we suggest replacing "made available or published" with "made publicly available." In our view "make available." means obtainable without undue expense or delay.

Paragraph 4
The last sentence in paragraph 4 replaces a more explicit exemption from disclosure in the consolidated financial statements in respect of intra-group transactions in current 4(a). We recommend revising the proposed paragraph by adding "…and therefore disclosure is not required."

Paragraph 9
Several of the definitions in the standard repeat definitions in other standards (e.g., "control", "joint control" and "significant influence"). The definition of "significant influence" varies from that proposed in IAS 28.3 and we suggest conforming the two.

2.8 IAS 27, Consolidation and Separate Financial Statements

Paragraph 4
As drafted it is difficult to understand the Board's intention, although it appears to be an introduction of the comment in paragraph 29A. We suggest redrafting this paragraph, perhaps along the following lines: *Separate financial statements are not mandated by this or other IFRS. Separate financial statements may be prepared as supplements to the consolidated financial statements. In order to comply with IFRS, they may be prepared for a parent without also preparing consolidated financial statements only in the circumstances described in paragraph 8. When separate financial statements are prepared they must be prepared in accordance with paragraphs 29, 30 and 33.*

Paragraph 8(d)
We believe that "published" should be changed to "available or published" to match IAS 24.3 or "publicly available" as we suggested in our previous comment on IAS 24.3.

Paragraph 12B
While paragraphs 12 and 12A focus on control, paragraph 12B emphasises voting control. We suggest deleting the word "voting."

Paragraph 13A
If the IASB decides not to permit an option for venture capitalists to use fair value rather than consolidation, then we suggest modifying the drafting as follows "…because the investor <u>manages its investment or measures its performance based primarily on fair value measures rather than on consolidated financial statements. Therefore, for example,</u> a venture capital organisation … similar entity shall prepare consolidated financial statements."

Paragraph 19
We believe that the Board should permit for transition to reduce the gap between an investor's and its subsidiary's/associate's year-ends.

Paragraphs 29 and 30
Paragraph 29 permits an entity to elect, on a class-by-class basis, use of cost or IAS 39 as its basis for measuring unconsolidated subsidiaries, joint ventures and associates in the entity's separate financial statements. Paragraph 30 requires use of IAS 39 in separate financial statements if IAS 39 is used in the consolidated financial statements. Would the use of IAS 39 in consolidated financial statements require all other investments to be accounted for in accordance with paragraph 29 of proposed IAS 27? Or does the fact that an investment was measured under IAS 39 in consolidated financial statements imply it is a separate class from other similar (e.g. associates) investments?

2.9 **IAS 28, Accounting for Investments in Associates**

Paragraph 3, definition of equity method
The description of the equity method should reflect the proposed amendments to paragraph 6 or delete the discussion of the income statement accounting.

Paragraphs 3 and 4
We suggest rephrasing the definition of associate. Instead of "an entity '*in*' which…" it would be more appropriate to say "an entity '*over*' which…"

Paragraph 4
In determining if an entity has a significant influence the Board considers voting power held by the entity and its subsidiaries but not by its associates. We believe that it may be appropriate to consider the ownership held by an associate in assessing whether a parent has the ability to exert significant influence over an investee. Therefore we suggest changing the first sentence to read, "if an investor holds directly or indirectly (e.g. through a subsidiary)…"

Paragraph 6
We suggest rephrasing the second sentence to emphasise that it is the post-tax earnings that are recognised in one line.

Paragraph 8
It is helpful to have this clarification regarding application of the equity method by an investor without subsidiaries.

Paragraph 17
We suggest revising the wording introducing the bullets so they clearly are examples rather than being viewed as an all inclusive list as implied by the proposed paragraph. For example, the adjustments listed do not include "intra-group" profits, which would be another adjustment following paragraph 16B.

We also think that the current drafting assumes that only goodwill and depreciable assets will be adjusted for fair value accounting; does the Board intend to preclude adjustment of intangible assets (e.g. patents) or liabilities (e.g. pension liabilities)?

Paragraph 18A
We suggest deleting the phrase "in the relatively few cases" as this situation can be common.

Paragraph 22A
This paragraph indicates that losses should be applied to investments in the order of their seniority, implicitly, most senior first. However, it is the least senior that are most likely to be impaired first. Should the loss recognition be applied in reverse order of seniority, i.e. least senior first?

Paragraph 27
We suggest clarifying whether (a), (b), (c), (f) disclosures are to be made in aggregate or on some other basis.

We also suggest that the comparative cost figure is given in addition to the fair values in bullet (a).

Paragraph 28A
We suggest clarifying that "an investor's share of changes in the associate's equity *shall be* recognised directly in equity by the investor *and* shall be disclosed in the investor's statement showing changes in equity…".

Paragraph 28B
We also believe that IAS 37 does not appear to require disclosure by an investor of contingent assets and liabilities of an associate. Therefore, the drafting should be revised to explain that IAS 37 definitions of contingent liabilities should be applied.

2.10 **IAS 33, Earnings per Share**

Paragraph 10
For clarity, and to parallel the language in proposed paragraph 27(a), we suggest inserting the words "the after-tax amounts of" before "preference dividends…"

Paragraph 13 and Appendix B, example 1
In some countries, the term "increasing rate preferred shares" refers not to cases involving original issue discount/premium as illustrated here, but to preference shares with an accelerating dividend as described in the current version of IAS 32.22. The second sentence of paragraph 13 and the example

in the Appendix illustrates how an equivalent of a discount/premium is computed and amortised to yield a constant dividend rate if the preference share is classified as equity, rather than as a liability. We suggest modifying the wording of the first sentence of paragraph 13 to read, "Preference shares may provide…. Any original issue discount of premium on shares classified as equity is amortised to retained earnings…" and to retitle Example 1 as "Preferred shares issued at a discount" and modify the fourth paragraph to read, "is amortised to retained earnings, as the shares are classified as equity, using the interest rate method.

We also suggest adding the word "effective" before "interest method."

Paragraph 14
To clarify that this paragraph refers only to preference shares classified as equity under IAS 32, we suggest adding to the end of the second sentence the phrase "if the shares are classified in whole or in part as equity."

Paragraph 19
While we agree with the guidance in examples (b) and (c) we believe they could be deleted. Example (b) is obvious and (c) follows from (d).

Paragraph 19(a)
We suggest modifying this paragraph to read "are included at the earlier of the date cash is receivable or the holders have the same rights as other holders of that class of shares."

Paragraph 36
We suggest the following rewording of paragraph 36: "Fair value for the purpose of calculating diluted earnings per share is the weighted average market price of the ordinary shares *for* the period *that the dilutive potential ordinary share was outstanding*" to make it consistent with paragraphs 31 and 32.

Paragraph 45
We believe that the comment about when necessary conditions are satisfied for contingently issuable shares (when 'the events have occurred') seems inconsistent with the language in IAS 22, which requires contingently issuable consideration to be accounted for once the resolution is probable and the amount can be measured reliably. This may be before the event, i.e., final resolution, occurs.

Paragraph 46
In order to clarify how to deal with contingencies that relate to multiple reporting periods, we suggest modifying the second sentence to read "The diluted earnings per share calculation includes those ordinary shares that would be issued under the conditions of the contract based on the assumption that the current amount of earnings in maintained until the end of the agreement…"

Paragraph 60
We believe that the reference to "for this line item" should be changed to "in respect of discontinuing operations." Under IAS 35 discontinuing operations are not presented as a single line item.

Paragraph 65
We believe that it would be helpful to cite an example (e.g., showing separately the cumulative effect of a change in accounting policy).

Appendix B, example 5
The example assumes that there is no tax effect on the convertible preference shares. This may not be correct because of the tax laws in a particular country. Therefore we recommend adding an assumption to this effect.

Other
The proposed standard does not address the issue of compulsorily convertible debentures (i.e. debentures that can only be converted into ordinary shares at, or by, a specified date), which commonly bear interest through to the conversion date. We suggest that the Board provide guidance on whether these securities should be classified as potential ordinary shares or as ordinary shares. As they are often anti-dilutive, unless they are considered to be ordinary shares, they would not be included in the diluted EPS calculation.

2.11 **Proposed Consequential Amendments to IASs and SIC Interpretations**

2.11.1 IAS 7, Cash Flow

Paragraph 26
We believe the word "reporting" should have been deleted from the second line of this paragraph.

Paragraph 36
The context in which undue cost and effort is used suggests a lower threshold of effort than is contemplated in other places where this potential exemption is cited (e.g. IAS 8 for retrospective application). We suggest changing the wording in IAS 7.36 to be "where possible."

Appendix
In paragraph 18(b) cash flow statement starts from the "net profit or loss," but the example in the appendix starts from the net profit before tax. We think that the appendix method is more practical because it ends up with fewer reconciling items, but the new hierarchy, pronounced in IAS 8.4 seems to preclude this.

The appendix should also be updated in another respect - it still refers to extraordinary items.

2.11.2 IAS 12, Income taxes

Paragraphs 69 and 77
We believe that the requirement for tax assets and tax liabilities to be presented separately in the balance sheet as well as the requirement to disclose the tax charge separately on the face of the income statement should be retained. Although these requirements are included in IAS 1, it would be useful also to retain them in IAS 12.

2.11.3 IAS 34, Interim financial reporting

Paragraph 25
The requirement to disclose “unusual items” has been deleted along with extraordinary items and fundamental errors. We believe that the requirement to disclose material unusual items separately in the interim report should be retained.

2.11.4 IAS 38, Intangible assets

Paragraph 7
We suggest deleting “to” in the phrase “… would currently to obtain…”

2.11.5 IAS 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.