20 September 2002

The Chairman
International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Dear Sir David,

PROPOSED IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Malaysian Accounting Standards Board (MASB) is pleased to provide its comments on the proposed improvements to International Financial Reporting Standards as set out in the accompanying pages.

The Board hopes that the IASB will find the comments useful in their deliberation to finalise the revised Standards.

We thank you for the opportunity to give our comments.

Yours sincerely,

Raja Arshad-Uda
Chairman

IAS 1, Presentation of Financial Statements

<u>Response to Questions with Objections / Comments</u>

Q1 Do you agree with the proposed approach regarding departure from a requirement of an IFRS or an Interpretation of an IFRS to achieve a fair presentation (see proposed paragraphs 13 – 16)?

No objection. In Malaysia, the MASB standards and the Companies Act 1965 would not allow such departure except only under rare circumstances where compliance with the accounting standards would be misleading and does not achieve a true and fair view.

The inclusion of the new provision, "If departure from the requirement is prohibited by national law, the entity must reduce, to the maximum possible, the perceived misleading aspects of compliance by providing certain specified disclosures" is not applicable in Malaysia.

Q2 Do you agree with prohibiting the presentation of items of income and expense as "extraordinary items" in the income statement and the notes (see proposed paragraphs 78 and 79)?

The Board has no objection to the prohibition on presentation of an item as extraordinary item because the existing conditions are presently restrictive enough for an item to be recognised as an extraordinary item. Although the Board disagrees with the conclusion that an item of extraordinary item is as a result of normal business risks as provided in the "Basis of Conclusion", the removal of an extraordinary item from the income statement has no major impact.

Q5 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)?

Q6 Do you agree that an entity should disclose key assumptions about the future, and other sources of measurement uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year (see proposed paragraphs 110 – 115)?

The Board disagrees with the proposed additional disclosures. The present Standards have already provided sufficient disclosure and the Board, while it recognised the importance of such disclosure, believed that such disclosure should not be required at the expense of other important information which may be diluted as a result of the new requirement. There is also a danger of information overload.

The guidance paragraphs 109 and 115, explain that some of these disclosures are required by other Standards. The Board believes that there is no necessity to repeat the requirements in IAS 1 if the requirements are already prescribed in other Standards. After all, an accounting standard should not be read in isolation when preparing financial statements.

The Board also believes the Standard should allow judgement by management to disclose the important and relevant information to users of financial statements. To this, the IASB may wish to note that paragraph 97(c) in ED - IAS 1 is broad enough to cover disclosure of additional information that is relevant to an understanding of the balance sheet, income statement, statement of changes in equity and cash flow statement.

Other Comments

(a) **Information to be Presented on the Face of the Income Statement**

(i) **The Board notes that the present requirement to disclose "results of operating activities" was removed from paragraph 76 of ED - IAS 1, for reason that "operating activities" is not defined in IAS 1.**

The Board disagrees with the reason and the removal of the disclosure of "results of operating activities". Such disclosure has been found to be important for users and for better understanding of the performance of an entity.

The Board wishes to point out that "operating activities" is defined in IAS 7, Cash Flow Statement, as activities that are the principal producing activities of the enterprise and other activities that are not investing or financing activities.

(ii) Paragraph 90 of ED - IAS 1 was modified (per underline) to allow disclosure of the amount of dividend recognised during the period and the related amount per share either on the face of the income statement or the statement of changes in equity or in the notes.

The Board would like to suggest that the disclosure of dividends should be made either on the face of the statement of changes in equity or in the notes, rather than on the income statement. Dividend to shareholders is a transaction between owners and the entity and not a performance measurement item. This is consistent with the requirement of paragraph 92 in ED - IAS 1 which prescribes that an entity shall present either within the statement of changes in equity or in the notes, amongst others, the amounts of capital transactions with owners and distributions to owners.

(b) **Cash or Cash Equivalent (CCE)**

IAS 1 ED prescribes that CCE is a current asset if it is not restricted from being exchanged or used to settle a liability for at least 12 months from balance sheet date. Therefore, if CCE is restricted for more than 12 months, it shall be classified as non-current. The definition of CE of IAS 7 may imply that CE should be presented as current assets. It states that CE are short-term, highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value.

The Board seeks the IASB to consider providing an explanation on what constitutes "short-term" and its implications on the presentation of CCE. This explanation seems to be consistent with the approach adopted in the recent IASB Exposure Drafts 27 and 28, which replaces vague terms like, "in the near future" with more definitive terms like "within 12 months".

(c) **Disclosure of An Entity that is Dependent Upon Another Entity**

There could be circumstances that en entity is economically dependent on another entity for a significant volume of revenue or financial support, and that dependency is not clearly discernible from the financial statements.

Having considered the relevance and usefulness of the information to users, the Board recommends the IASB to consider the requirement to disclose the name of the entity on which there is economic dependency, and the nature of such dependency. The propose requirement may read:

"In circumstances where an entity is economically dependent upon another entity for significant volume of business or financial support, the dependent entity shall disclose: (a) the name of the entity on which there is economic dependency; and (b) the nature of that economic dependency."

(d) **<u>Offsetting</u>**

(1) The Board notes that the word "permitted" is removed from paragraph 33 of IAS 1 but not from paragraph 34(a) of IAS 1. These paragraphs are paragraphs 28 and 29 in ED - IAS 1.

The Board believes that the amendment to remove the word "permitted" should be consistent for these paragraphs.

(2) The Board also notes that paragraph 34(b) of IAS 1 was deleted without removing its explanatory paragraphs 36 and 37 of IAS 1. These are paragraphs 31 and 32 in ED - IAS 1. The Board recommends to remove the explanatory paragraphs unless there are reasons for maintaining them.

<u>Response to Questions with No Objections</u>

Q3 Do you agree that a long-term financial liability due to be settled within 12 months of the balance sheet date should be classified as a current liability, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue (see proposed paragraph 60)?

Yes.

Q4 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 consequent 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 12 months after the balance sheet date and:

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

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

Yes

IAS 2, Inventories

<u>Other Comment</u>

(a) <u>Removal of Disclosure on Cost of Inventories</u>

The Board disagrees with the removal of disclosure on cost of inventories recognised as an expense. The requirement for such disclosure is necessary for clarity of the standard. The argument in the "Summary of Main Changes" section which explains that paragraphs 37 to 39 are unnecessary because the required disclosures are also required by IAS 1 is not supported. While the Board notes that paragraphs 83 to 89 in ED - IAS 1 prescribes the requirement to disclose an analysis of expenses using a classification based on either the nature of expenses or their function, the requirement to disclose the cost of inventories in the financial statements is not evident in IAS 1.

<u>Response to Questions with No Objections</u>

Q1 Do you agree with eliminating the allowed alternative of using the last-in, first-out (LIFO) method for determining the cost of inventories under paragraphs 23 and 24 of IAS 2?

Yes

Q2 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 the profit or loss (paragraph 31). Do you agree with retaining those requirements?

Yes

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

<u>Other Comment</u>

(a) <u>Standards Issued but Not Yet Effective</u>

The ED requires disclosure of the nature of a future change in an accounting policy when an entity has yet to implement a new Standard that has been issued but not yet come into effect. In addition, disclosure would be required of the planned date of adoption, and an estimate of the effect of the change on the entity's financial position unless making such an estimate requires undue cost or effort.

The Board disagrees with this requirement. In some countries, for example Malaysia, the approved accounting standard is issued 6 to 9 months prior to its effective date and is intended to provide the opportunity for preparers to fully evaluate the impact of the new Standard and to cope with the changes in information needs required by the Standard. This is important, in particular, for those complex Standard, for example IAS 39, Financial Instruments: Recognition and Measurement. To require the disclosure of the date of intended adoption is therefore unnecessary.

<u>Response to Questions with No Objections</u>

Q1 Do you agree that the allowed alternative treatment should be eliminated for voluntary changes in accounting policies and corrections of errors, meaning that those changes and corrections should be accounted for retrospectively as if the new accounting policy had always been in use or the error had never occurred (see paragraphs 20, 21, 32 and 33)?

Yes

Q2 Do you agree with eliminating the distinction between fundamental errors and other material errors (see paragraphs 32 and 33)?

Yes

IAS 16, Property, Plant & Equipment

<u>Other Comments</u>

(a) <u>Compensation for Impairments</u>

ED - IAS 16, paragraph 53A, prescribes that compensation from third parties for items of PPE that were impaired, lost or given up shall be included in profit or loss for that period in the period in which it is received.

The Board disagrees that recognition of the compensation shall be included in the income statement in the period it is received, i.e. receipt basis, unless it cannot be measured reliably. This is inconsistent with the principles in the:

(i) IASB Framework which prescribes that income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably;

(ii) IAS 1 that requires an entity to prepare its financial statements, except for cash flow information, under the accrual basis of accounting; and

(iii) IAS 18, Revenue which prescribes conditions for revenue recognition, to include amongst others, the amount can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the entity.

The Board believes that the recognition of such item in the income statement should be based on accrual basis of accounting. For instance, if an entity is notified by the insurance company that the latter will reimburse the entity of an impairment / loss of an asset, the

entity should be allowed to recognise the compensation in its financial statement when notified, regardless of when such reimbursement will be received.

(b) Component of Cost of PPE - Paragraph 15(b) of ED - IAS 16

The Board notes that the phrase "its intended use" in paragraph 15 of IAS 16 is replaced with "in the manner intended by management" in paragraph 15(b) in ED - IAS 16.

IAS 16, paragraph 15, states that, "The cost of an item of PPE comprises its purchase price … and any directly attributable costs of bringing the asset to working condition for its intended use…"

ED - IAS 16, paragraph 15(b) states that, "The cost of an item of PPE comprises … any directly attributable costs to bring the asset to the location and working condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the asset is functioning properly, …"

The Board believes the phrase "in the manner intended by management" will be confusing to preparers and auditors, and therefore require further guidance.

In addition, the phrase may no longer be consistent with the principle in IAS 23, Borrowing Costs, which prescribes that capitalisation of borrowing costs should cease when substantially all activities necessary to prepare the qualifying asset for its intended use or sale are complete.

(c) Review of Residual Value

IAS 16, paragraph 46, stipulates that when the benchmark treatment is adopted and the residual value is likely to be significant, the residual value is estimated at the date of acquisition and is not subsequently increased for changes in prices. However, when the allowed alternative treatment is adopted, a new estimate is made at the date of any subsequent revaluation of the asset.

ED - IAS 16, paragraph 46, is amended to read, "…When the residual value is likely to be material, the residual value is estimated at the date of acquisition and reviewed at each balance sheet date…."

The Board is of the view that under the benchmark treatment, the residual value of an item of PPE should be estimated at the date of acquisition and not subsequently to take into account the effect of inflation on asset prices. Subsequent adjustment to the residual value may open to management justification for minimal depreciation or for not depreciating an asset because entities may claim that the residual value has risen.

(d) <u>Guidance to paragraph 7 of IAS 16 on recognition of an item of PPE as an</u> Asset - Paragraphs 9 to10 of IAS 16

Explanatory paragraphs 9 to 10 of IAS 16 on the guidance to ascertain if an item of PPE meets the recognition criteria (probable future inflow of economic benefits and cost measured reliably) for an asset were deleted. These paragraphs provide useful guidance to preparers of financial statements.

The Board recommends that these explanatory paragraphs be retained unless there is specific reason for their deletion.

Response to Questions with No Objections

Q1 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 the assets exchanged can be determined reliably (see paragraphs 21 and 21A)?

Yes.

Q2 Do you agree that all exchanges of intangible assets should be measured at fair value, except when fair value of neither of the assets exchanged can be determined reliably? (See amendments in paragraphs 34 to 34B of IAS 38, Intangible Assets, proposed as a consequence of the proposal described in Q 1.)

(Note that the Board has decided not to amend, at this time, the prohibition in IAS 18, Revenue, on recognizing the revenue from exchanges or swaps of goods or services of a similar nature and value. The Board will review that policy later in the context of a future project on the Recognition of Revenue.)

Yes

Q3 Do you agree that depreciation of an item of property, plant and equipment should not cease when it becomes temporarily idle or is retired from active use and held for disposal (see paragraph 59)?

Yes.

IAS 17, Leases

<u>Response to Question with Objection / Comment</u>

Q1 Do you agree that when classifying a lease of land and buildings, the lease should be split into two elements – a lease of land and a lease of buildings? The land element is generally classified as an operating lease under paragraph 11 of IAS 17, Leases, and the buildings element is classified as an operating or finance lease by applying the conditions in paragraphs 3 – 10 of IAS 17.

The Board agrees that a lease of land and buildings should be split into the lands and buildings elements.

However, the Board disagrees with the IASB conclusion that "… the land element is classified as an operating lease unless title is expected to pass to lessee…". The emphasis on "title is expected to pass to lessee" is clearly not consistent with the definition of finance lease, which states that, "A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred." In this respect, the IASB may wish to revisit the definition of a finance lease.

The nature and characteristics of leased land differ from one country to the other. In Malaysia, land title is issued to leasehold land with a finite life, for example, in the form of short-term leases of less than 50 years or long-term leases of up to 99 years. The land can be bought or sold freely. All risks and rewards incident to ownership are passed to the lessee. Accordingly, such leases are accounted for as finance leases and may be classified as Property Plant, and Equipment.

<u>Response to Question with No Objection</u>

Q2 Do you agree that when a lessor incurs initial direct costs in negotiating a lease, those costs should be capitalized and allocated over the lease term? Do you agree that only incremental costs that are directly attributable to the lease transaction should be capitalized in this way and that they should include those internal costs that are incremental and directly attributable?

Yes.

IAS 21, The Effects of Changes in Foreign Exchange Rates

<u>Response to Questions with Objections / Comments</u>

Q2 Do you agree that a reporting entity (whether a group or a stand-alone entity) should be permitted to present its financial statements in any currency (or currencies) that it chooses?

The Board disagrees with the proposal to permit an entity to present its financial statements in any currencies it chooses. Instead, the presentation currency should be either: (i) the functional currency; or (ii) the currency required by national law.

Q4 Do you agree that the allowed alternative to capitalize certain exchange differences in paragraph 21 of IAS 21 should be removed?

No objection. The Board notes that the reason for the deletion is that the asset would be restated in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies, to the extent that an exchange loss reflects hyperinflation. The Board is of the view that the IASB should consider providing guidance in cases where there is no means of hedging, for example, in situations where a country has a foreign currency control policy, but where the entity is not operating in a hyperinflationary economy.

<u>Other Comments</u>

(a) <u>Disclosure of Closing Rates Used in Translation</u>

The IASB may wish to consider requiring the disclosure of closing rates used in the translation of the financial statements. The disclosure has been found to be relevant and useful to users of financial statements.

(b) <u>Disclosure on Outstanding Foreign Monetary Items</u>

The IASB may wish to consider the inclusion of disclosure requirement with respect to an entity's exposure to diversified portfolio of foreign currencies as at balance sheet date. Such disclosure will enable users to evaluate an entity's exposure to the movement of exchange rates. The propose requirement may read:

An entity shall disclose:

(a) its policy for foreign currency risk management; and

(b) as at balance sheet date, in aggregate for each foreign currency, the amounts payable or receivable in a foreign currency in the case of non-current assets and non-current liabilities to the extent that they are not effectively hedged to a date at least 12 months after balance sheet date.

<u>Response to Questions with No Objections</u>

Q1 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 to 12 on how to determine what is an entity's functional currency?

Yes.

Q3 Do you agree that all entities should translate their financial statements into the presentation currency (or currencies) using the same method as is required for translating a foreign operation for inclusion in the reporting entity's financial statements (see paragraphs 37 and 40)?

Yes.

Q5 Do you agree that (a) goodwill and (b) fair value adjustments to assets and liabilities that arise on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation and translated at the closing rate (see paragraph 45)?

Yes.

IAS 24, Related Party Disclosures

Response to Questions with Objections / Comments

Q1 Do you agree that the Standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations (see paragraph 2)?

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

The Board recognises the reasons for scoping out disclosure of management compensation. Due to its sensitivity, the IASB may instead consider requiring disclosure of management compensation by banding.

Q2 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 bellows (see paragraph 3)?

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

The Board disagrees to remove the requirement of related party transactions disclosure in the parent separate financial statements when the parent financial statements are available with the consolidated financial statements. The Board believes that IAS 24 should exempt only those intra-group transactions which are not eliminated on consolidation, and hence, disclosed in the consolidated financial statements. To require a parent to repeat the same disclosures in its separate financial statements would not add value to users of financial statements.

Intra-group transactions eliminated on consolidation are still required to be disclosed in parent separate financial statements even though the parent financial statements are published alongside with the consolidated financial statements.

Intra-group transactions such as material abnormal transactions between a parent and its subsidiaries would be considered relevant to users, particularly minority shareholders of the parent. Information on advances or loans by a parent company to its subsidiaries, particularly non-wholly owned subsidiary, would be especially useful to the minority shareholders.

Other Comments

(a) Disclosure of Related Party Relationship where Control Exists

The Board has no objection to the proposal to disclose parent-subsidiary relationship irrespective of whether there have been transactions between those enterprises, provided that such disclosure is subject to economic dependency as recommended in IAS 1 [Comment (d)(ii)].

(b) Disclosure of Identity of Related Parties

The Board strongly suggests that the IASB consider requiring disclosure of the identity of related parties if there have been transactions between related parties. The disclosure enhances transparency and the information has been found to be useful and relevant to users of financial statements.

(c) Scope

The IASB may wish to consider that the Standard shall be applied to companies whose securities are publicly traded or in the process of issuing securities in public securities market.

IAS 27, Consolidated and Separate Financial Statements

Response to Question with Comment

Q1 Do you agree that a parent need not prepare consolidated financial statements if all the criteria in paragraph 8 are met?

Yes. However, the IASB may wish to consider the exemption under paragraph 8(d) be limited to cases where the immediate or ultimate parent that publishes consolidated financial statements in the same jurisdiction as the parent, because users of the financial statements of a parent that is itself a wholly-owned subsidiary of a foreign enterprise still need to be informed about the financial position, results of operations and changes in financial position of the group as a whole.

Q3 Do you agree that investments in subsidiaries, jointly controlled entities and associates that are consolidated, proportionately consolidated or accounted for under the equity method in the consolidated financial statements should be either carried at cost or accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in the investor's separate financial statements (paragraph 29)?

The Board has no comment for the time being, as it needs to consider the timing of the issuance of IAS 39 before making any change to the provision. As it currently stands, MASB 11, Consolidated Financial Statements and Investments in Subsidiaries, requires these investments to be accounted at either cost or revalued amount in accordance with IAS 25 for the reason that the Board has yet to issue IAS 39.

Q4 Do you agree that if investments in subsidiaries, jointly controlled entities and associates are accounted for in accordance with IAS 39 in the consolidated financial statements, then such investments should be accounted for in the same way in the investor's separate financial statements (paragraph 30)?

See response above.

Other Comments

(a) Scope of consolidation

IAS 27 prescribes that a subsidiary should be excluded from consolidation when: (a) control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to subsequent disposal in near future; or (b) operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.

The ED of Revised IAS 27 (ED - IAS 27), paragraph 13 proposes that a subsidiary shall be excluded from consolidation when control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal within 12 months from acquisition.

The Board suggests that the phrase "and has not been previously consolidated" be included in paragraph 13 to read,

> **"*A subsidiary shall be excluded from consolidation when control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal within 12 months from acquisition and has not been previously consolidated.*"**

This is because when a subsidiary is acquired and held exclusively with a view to subsequent resale, it is evident that the parent intends to hold the interest only for the short term. Accordingly, in the period in which the acquisition occurs, it is inappropriate to include the subsidiary in the consolidated financial statements.

(b) Disclosure

The Board notes that the ED - IAS 27 proposes to delete the following disclosures:

(i) in consolidated financial statements a listing of significant subsidiaries, including the name, country of incorporation or residence, portion of ownership interest and, if different, proportion of voting power held.

(ii) effect of acquisition and disposal of subsidiary on the financial position at reporting date, results for reporting date and corresponding amount for the preceding period.

The Board disagree with the removal the above disclosures unless they are required under other IFRSs. These disclosures are essential for the overall understanding of the consolidated financial statements of an entity. Also, it would enable the user of financial statement to understand how an acquisition or disposal affects the financial position and result of the consolidated entity for the reporting (and corresponding amount) period.

If the IASB retains the disclosures, the Board would like to suggest that further clarification should be provided on item (ii) above.

(c) Disclosure - Reasons Why Separate Financial Statements Are Prepared

The ED - IAS 27, paragraph 33(a) requires the disclosure in the investor's separate financial statements and in the financial statements of a parent that need not present consolidated financial statements, the reasons why separate financial statements are prepared.

The Board believes that the disclosure of reasons is unnecessary. As noted in paragraph A7 in ED - IAS 24, the IASB acknowledges that there are countries where an entity is required by law to publish parent separate financial statements in addition to the group's consolidated financial statements, and therefore, such disclosure may be redundant in those countries.

If the IASB decides to maintain the disclosure, the Board recommends that the IASB considers exempting such disclosure in countries where an entity is required by law to publish separate financial statements in addition to group financial statements.

Response to Question with No Objection

Q2 Do you agree that minority interests should be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity (see paragraph 26)?

Yes.

IAS 28, Accounting for Investments in Associates

Response to Question with Objection / Comment

Q2 Do you agree that the amount to be reduced to nil when an associate incurs losses should include not only investments in the equity of the associate but also other interests such as long-term receivables (paragraph 22)?

No. The Board disagrees with the application of the associate losses to other financial interests in an associate, for example, long-term trade receivable or loans.

The Board believes that the investor's interest to be reduced to nil when an associate incurs losses shall include only the carrying amount of the investment. The carrying amount of the investment in an associate shall include: (a) common shares; and (b) preference shares that provide unlimited rights of participation in earnings or losses and a residual equity interests in the associate. To include other financial interests in the associate is not appropriate as it is not part of the equity interests.

The Board also believes that the other financial interests in the associate shall be subject to impairment review instead (the continuing losses of the associate should be considered objective evidence that the financial interests may be impaired).

Other Comments

(a) Accounting for Investment in an Associate in the Parent Separate Financial Statements

The ED - IAS 28 paragraph 8A prescribes that an investment in an associate be accounted for using the equity method even when an investor does not prepare consolidated financial statements because it does not have any subsidiaries.

The ED - IAS 27, paragraphs 8 and 29, allows a parent that is exempted from presenting consolidated financial statements to account for, in its separate financial statements, its investment in associates at cost or in accordance with IAS 39.

The IASB may wish to revisit the above provisions. There seems to be a different treatment of investment in an associates by an investor that does not prepare consolidated financial statements (because it does not have any subsidiaries) and by a parent that is exempted from presenting consolidated financial statements.

(b) Disclosure

The Board note that the ED - IAS 28 proposes to delete the requirement to disclose the listing and description of significant associates including the proportion of ownership interest and, if different, the proportion of voting power held.

The Board disagrees with the removal the above disclosures as it believes that this information has been found to be useful for the overall understanding of the consolidated financial statements. If the disclosure is deleted from IAS 28, it should be required under other IAS.

(c) Additional Guidance

The Board strongly suggests the standard to provide additional guidance on: (i) reciprocal shareholdings (associate holdings ownership interest in investor); and (ii) associates held by partly owned subsidiary, which would be useful to preparers of financial statements. To this, the IASB may wish to consider the propose requirements below:

Reciprocal Shareholdings

Where an associate holds an ownership interest in the investor, any profit or loss and any increment or decrement of net assets of the investor which the associate has accounted for in its financial statements, shall be disregarded when the investor applies the equity method to account for its investment in the associate.

Reciprocal shareholdings may exist between an investor and its associates. In such circumstances, it is necessary that the investor does not double-count part

of its own profits or losses and other results when it applies the equity method. In the case where the associate applies the cost method to account for its investment in the investor, any dividend income from the investor that has been recognised by the associate should be disregarded when the investor applies the equity method. In the consolidated income statement of the investor, the investor's proportionate share of the dividend paid or payable to the associate shall be eliminated. In the case where the associate applies the equity method to account for its investment in the investor, the share of profits or losses and share of other reserves which have been recognised by the associate shall be disregarded when the investor applies the equity method.

<u>Associates held by Partly-Owned Subsidiaries</u>

Where the group's investment in an associate is held by a subsidiary in which there are minority interests, the minority interests shown in the consolidated financial statements of the group should include the minorities' share of the subsidiary's interest in the results and net assets of the associate.

(d) <u>Additional Disclosure</u>

The following information is found to be users of financial statements. The Board strongly suggests the IASB to consider requiring the disclosures of:

(i) the group's share of net assets other than goodwill of associate;

(ii) group's share of any goodwill in associate; and

(iii) goodwill or negative goodwill on acquisition of the group interest in associate, to the extent it has not been written off / amortised.

<u>Response to Question with No Objection</u>

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

Yes.

IAS 33, Earnings Per Share

Other Comments

(a) Changes in Capital Structure

The ED - IAS 33, similar to the IAS 33, prescribes that if the number of ordinary or potential ordinary shares outstanding as a result of a capitalization, bonus issue, reverse share split etc, occur after balance sheet date but before issue of financial statements, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares. The fact that the per share calculations reflect such changes in the number of shares shall be disclosed.

The Board disagrees with the requirement to take into account changes in capital structure after the balance sheet date in the computation of basic and diluted earnings per share. This principle is inconsistent with the basis of conclusion taken in ED - IAS 1 with regard to the classification of liabilities, where the IASB believes that refinancing or restructuring after balance sheet date does not affect liquidity and solvency at balance sheet date, the reporting of which should reflect contractual arrangements in force at balance sheet date. The IASB also concluded that those refinancing or restructuring after the balance sheet date is a non-adjusting event under IAS 10.

The Board is of the view that the changes in capital structure after the balance sheet date should not be taken into account when computing the basic and diluted earnings per share. The computation is not adjusted for such transactions occurring after balance sheet date because such transaction do not affect the amount of capital used to produce the net profit or loss for the period.

Nonetheless, the IASB may wish to consider requiring additional pro forma earnings per share information for the effects of such changes to be disclosed.

(b) Scope

IAS 33 prescribes that when both parent and consolidated financial statements are presented, the information called for by IAS 33 need to be presented only on consolidated information. This provision is deleted from the Exposure Draft of Revised IAS 33 (ED - IAS 33).

The Board disagrees with the deletion. With the deletion, it is not clear whether the information called for by the Standard should be presented for consolidated information only or for both separate and consolidated financial statements, when separate financial statements are prepared.

Response to Questions with No Objections

Q1. 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?

Yes.

Q2 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-todate 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).

Yes.

IAS 40, Investment Property (IP)

Response to Questions with Objections / Comments

Q1 Do you agree that the definition of investment property should be changed to permit the inclusion of a property interest held under an operating lease provided that:

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

Q2 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?

The Board disagrees with the proposal. It is incorrect to treat operating lease as an asset. In addition, it is not accurate to classify land as operating lease [see characteristics of land under operating lease in the IAS 17 – Comment]. The IASB may wish to revisit IAS 17, instead of IAS 40, vis-à-vis the definitions of finance lease and operating lease.

Response to Question with No Objection

Q3 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?

Yes.