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International Accounting Standards Board
30 Cannon Street
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16 September 2002

Dear Sirs

EXPOSURE DRAFT OF PROPOSED IMPROVEMENTS TO INTERNATIONAL ACCOUNTING STANDARDS

We are pleased to have this opportunity to comment on the above Exposure Draft. We note that the IASB would like comments on certain specific matters in each standard. We also have some more general comments.

In general, we support the IASB's Improvements Project. However, we question the wisdom of revising standards now when further substantial changes are likely to be proposed within a matter of months as a result of other IASB projects, in particular that on performance reporting. New and revised standards arising from this project are likely to come into force only one year after changes arising from the improvements project. We are not convinced that the credibility of standards is enhanced by such frequent changes. The standards within the scope of this exposure draft that are most affected by this would appear to be IAS 1, IAS 8 and IAS 33, though the performance reporting project may lead to changes to several other standards.

Our major concerns on these proposals are that:

- The concept of "undue cost or effort" should be clearly and consistently explained wherever it occurs, for example in IAS 1, IAS 8 and also in ED 1.
- We consider that the issue of materiality, which was thrown into confusion by the late deletion of the paragraph in the Preface, must be made clear. We note that the rubric on the exposure drafts continues to say the IAS are not applicable to immaterial items, but refers to the paragraph in the Preface which does not now exist.

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We respond in detail to the questions raised in the Exposure Draft in the appendix. If you would like us to amplify our comments, please contact Robert Carroll on 0870 991 2210.

Yours faithfully

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IAS 1 PRESENTATION OF FINANCIAL STATEMENTS

1 Do you agree with the proposed approach regarding departure from a requirement of an International Reporting Standard or an Interpretation of an International Financial Reporting Standard to achieve a fair presentation?

In general, we are comfortable with the broad thrust of the proposals. We have the following comments:

- The parenthesis in paragraph 10 seems to raise the status of the Framework above that of the set of IFRS and Interpretations. From a practical point of view, it would be more helpful and understandable to put the words in the parentheses as explanation of "present fairly" in a subsequent paragraph, perhaps before, in or after paragraph 12.
- The phrase "true and fair view" is often used as an alternative to "fairly presents". It would improve comprehensibility if the relationship between the phrases were made clear here.
- Paragraph 15 describes the response when fair presentation requires a deviation from IFRS but local law prohibits that deviation. Whilst accepting that this may occur rarely, we consider that the proposals of paragraph 15 are badly wrong. In essence, they allow local law to override what should be done to give a fair presentation, by permitting explanatory disclosure only. In our view, such a result weakens the whole basis of IFRS being strong, and the whole principle of paragraphs 10 and 11. If the highest objective is fair presentation, then local interference with that should result in the financial statements no longer earning the tag of compliance with IFRS. If there is a practical problem here, that paragraph 15 is trying to deal with, possibly the solution is to require, in theses circumstances only, that the compliance statement from paragraph 11 be qualified.
- We consider that the existing paragraph 12 in IAS 1, pointing out that disclosure cannot rectify poor accounting treatment, is a powerful and helpful paragraph, and should be retained. (It occurs to us that its proposed demise may have been the result of the facilitation of the mechanism in paragraph 15 with which we have disagreed above.)

2 Do you agree with prohibiting the presentation of items of income and expense as "extraordinary items" in the income statement and the notes?

We see no reason to object to this proposal. We consider that this is a matter of mandating a treatment to reduce differences in accounting for items, increase comparability and prevent abuse of standards. Therefore, as there is the ability to describe items as exceptional and so highlight them, prohibiting extraordinary items would not inhibit the amount of information given to the users of financial statements.

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

Yes.

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?

(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?

Yes.

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?

This proposal is not explicit enough in what it is seeking to require. As such, it could become a charter for unwarranted criticism, which will not help the reputation of reliable accounting standards. Therefore, we suggest that the IASB re-expose this concept, with more examples of the type of judgements and the extent of disclosure that is envisaged. The IASB has not been shy of providing examples in the rest of IAS 1, and there seems to be no reason to be so here.

6 **Do you agree that an entity should disclose the key assumptions about the future, and other sources of measurement uncertainty, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year?**

We do not agree with this proposal as a general proposition. While we have sympathy with attempts to make financial statements more useful in predicting the future, we consider it could be onerous, costly and commercially sensitive. It is similar to the proposal in question (5) but it is posing questions about the future. It could create difficulties in drawing lines between a profit forecast and financial statements.

In a similar way to paragraph 108, the lack of precision of the requirements of paragraph 110 carries the dangers of unwarranted criticism of IFRS and their application. We think that more detail and more examples might help to show where the boundaries of these requirements are.

Other issues

"Undue cost or effort"

We note that, in common with other recent proposals by the IASB, the term "undue cost or effort" is used in place of "impracticable". In the revised IAS 1, there is material in paragraphs 35 to 39 explaining this idea, relating specifically to comparative figures. We have concerns about the use of this phrase, as, at face value, it appears to be a weaker requirement than the concept of impracticability that it replaces. We recognise the need for some concept of this type, but recommend strongly that its meaning and intent be explained consistently and clearly in the standards affected to minimise the potential for abuse. For example, some companies may regard almost any cost or effort as "undue". We believe that there is a strong case for a definition to be included in the IASB's Glossary of Terms.

The IASB should also ensure that the "undue cost or effort" exemptions are consistent as between IAS 1, IAS 8, and ED 1 on first-time application of IFRS. IAS 1 paragraph 35 and IAS 8 paragraph 13 make general allowance for undue cost or effort when changing accounting policies – however ED 1 only explicitly makes exemptions in the case of a limited number of specified items. It would be helpful to include the general exemption explicitly in ED 1, if that is intended to be available, and also to make reference to (the IFRS resulting from) ED 1 in IAS 1, paragraph 39.

IAS 2 INVENTORIES

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

Yes.

2 **IAS 2 requires reversals of write-downs of inventories when the circumstances that previously caused inventories to be written down below cost no longer exist (paragraph 30). IAS 2 also requires the amount of any reversal of any write-down of inventories to be recognised in profit or loss (paragraph 31).**

Do you agree with retaining those requirements?

Yes. However, we disagree with the disclosure of any write-down of inventories proposed in paragraph 34(c) of the draft revised standard. We consider that this may present practical problems and increase disclosure requirements without compensating benefits. The disclosure of reversal of impairment provisions at least has the merit of giving some information about the quality of past estimates. On first reading, it appears that this disclosure extends to inventory sold at a loss during the year as well as that held at the year-end. Disclosure of the impairment charge itself merely identifies how much inventory was sold at less than cost (a result implicit in the trading results in any case) and requires every item of inventory, together with its attendant overhead costs, to be individually compared with its selling price or net realisable value. Is the disclosure worth the cost involved in the systems required? We doubt it, and suggest that the proposed disclosure be deleted, or better justified. Alternatively, if this disclosure is intended to apply only to inventory held at the year-end, the text should be amended to clarify this point.

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

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)?**

Yes.

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

Yes. However, we note that the text of the draft revised standard itself does not refer to materiality in this context. We recommend that the word "material" be incorporated either into the definition of an error or into paragraph 32.

Other issues

Developing accounting policies

Paragraphs 5 and 6 of the draft standard set out factors to consider in developing an accounting policy for a matter that is not addressed by a standard. We suggest that the IASB consider extending the scope of the factors in paragraph 5 to include the development and application of accounting policies and estimation techniques in general. The highest quality financial reporting is most likely to be achieved where there is not merely a requirement to comply with standards where they exist and with more general principles where there is no specific standard, but where entities are required to select and apply accounting policies and estimation techniques in the manner most appropriate to the entity's particular circumstances, in addition to complying with standards. This may be of particular relevance where a choice of treatment is permitted or where significant judgement is required. It may also be useful to give more emphasis to the importance of comparability with other entities in the same industry or business sector when selecting and applying accounting policies and techniques. Such an approach would converge International Financial Reporting Standards with the approach set out in the UK ASB's standard FRS 18 'Accounting Policies'.

Proposed disclosure requirements

We have concerns about the proposed disclosure requirements relating to future adoption of a standard in issue but not in force, as set out in paragraph 19, in particular the numerical disclosure in sub-paragraph (d)(i). We consider this proposed disclosure to be unduly burdensome and likely to be difficult or impracticable to comply with, especially where a new standard is issued shortly before the accounts are finalised or where a new standard makes significant changes to recognition or measurement requirements. We acknowledge that sub-paragraph (d)(ii) grants relief on the grounds of undue cost or effort but consider that such an exemption is likely to be invoked so frequently when a major new standard is issued as to undermine the disclosure requirement itself.

IAS 10 EVENTS AFTER THE BALANCE SHEET DATE

The IASB has not asked any specific questions relating to the amendments proposed to this standard.

We support the IASB's proposed changes. However, we also suggest that the IASB takes the opportunity presented by the improvements project to improve the structure of IAS 10. We consider that the presentation of examples of adjusting and non-adjusting events could be better organised, for example by setting them out in an appendix. At present, the standard lists examples of adjusting events within 'Recognition and Measurement' (paragraph 8), but gives examples of non-adjusting events in both 'Recognition and Measurement' (paragraph 10) and 'Disclosure' (paragraph 21).

IAS 15 INFORMATION REFLECTING THE EFFECTS OF CHANGING PRICES

We support the IASB's proposal to withdraw IAS 15.

IAS 16 PROPERTY, PLANT AND EQUIPMENT

1 **Do you agree that all exchanges of items of property, plant and equipment should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably (see paragraphs 21 and 21A)?**

Yes, in principle. It will be important to present the gain appropriately, a matter to be dealt with in the project on reporting financial performance. Although there may be some conceptual merit in treating exchanges of similar items differently from other exchanges, making such a distinction will inevitably involve drawing bright lines, which, in our view, the IASB should be seeking to avoid.

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?**

Yes. See our answer to (1) above.

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

We disagree with the IASB's proposal, which appears to go against the definition of depreciation in paragraph 41, as the asset is not being used up. In particular this would be true of assets whose primary indicator of consumption is units of output, rather than effluxion of time. In addition, the IASB has provided no explanation for the change. We believe that it would make more sense to mandate impairment reviews of idle assets, if it is felt that something is needed in this area.

Other comments

Residual values

The exposure draft proposes that residual values used in the calculation of depreciable amount should be reviewed at each balance sheet date and revised to reflect current estimates. The current version of IAS 16 generally requires prices at the date of acquisition or latest valuation to be used; hence, depreciation expense on a historical cost basis is not reduced by inflation in residual values.

We disagree with the IASB's proposal on this point. We note that the IASB has not provided adequate explanation in their draft to justify this proposed change. The proposed method of determining residual values raises wider conceptual issues about depreciation and valuation. We believe that the proposed approach will lead to the indirect recognition of holding gains by effectively netting such gains off against the depreciation charge. We do not see how the proposed approach fits in with historical cost principles. We support the approach in the current version of IAS 16.

Whilst the IASB's assertion in paragraph 46 of the proposed revised standard that residual values will often not be material is undoubtedly true for many assets, residual values may be material in a significant number of cases, for example scrap values of major plant or vessels. Therefore, on a practical level, we consider that the need to reassess residual values annually in line with current price levels will be unnecessarily burdensome for many businesses. For this reason also, we favour retaining the approach in the current version of IAS 16.

Non-depreciation of assets other than freehold land

The current UK standard, FRS 15 'Tangible Fixed Assets', contains specific provisions relating to non-depreciation of assets other than freehold land (FRS 15, paras 90-91). There is no equivalent material in either the current or proposed revised IAS 16. In view of the significance of this issue to particular industries in the UK and, potentially, elsewhere, we suggest that the IASB should clarify its position regarding non-depreciation on the grounds that the uncharged depreciation would be immaterial in aggregate. The use of the word "normally" in paragraph 42 of the draft revised IAS 16 does appear to leave open the possibility of non-depreciation but we believe that further clarification would be helpful to users, especially during the transition to IFRS.

IAS 17 LEASES

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.**

We agree in principle with this proposal. However, we consider that there may be considerable practical difficulties in distinguishing between the land element and the buildings element, especially in fully developed areas where values for the land element may be difficult to determine by reference to market transactions.

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

We support the IASB's proposal to eliminate the choice currently in IAS 17. Although we see merit in the argument that initial direct costs are in the nature of selling costs and should be expensed, we support the IASB's proposed treatment on the grounds of international convergence.

IAS 21 THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

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?

Yes.

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?

Yes.

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

The proposed method is consistent with translation of foreign operations for consolidation and effectively does away with the need to identify a functional currency for the group as a whole. In the interests of consistency, we support the IASB's proposal. However, an exchange difference will arise on retranslating the profit for the year at the closing rate for inclusion in the balance sheet, and accounting ratios utilising information from both the balance sheet and performance statements will not be preserved. We also note that a distinction can be drawn between exchange differences arising on the translation of a foreign operation into the parent's functional currency for inclusion in the consolidation and the translation of financial statements into another currency for presentation. Arithmetically, the exchange differences arise in the same way but, in the former case, the exchange differences reported are economically significant to the users of the group accounts; in the latter case, the exchange differences are simply the result of a translation for presentation and may have no economic significance. Therefore, we propose that the IASB reconsider whether any additional disclosure or explanation should be required in financial statements retranslated for presentation so that the reader is not misled as to the nature of exchange differences arising or the impact on accounting ratios.

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

Yes.

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 (see paragraph 45)?**

We support the proposal with regard to fair values, as these are definitely foreign currency assets. Goodwill represents a right to future income streams and hence can be argued to be a foreign currency asset. However, as goodwill is not an asset, we are not convinced that it makes sense to retranslate it and obtain exchange differences. The argument appears finely balanced on goodwill, especially taking into account the practical issues associated with pushing down goodwill on acquisition of a multinational group (although this may be required in any event for impairment reviews). As the proposed treatment of goodwill accords with one of the alternatives currently permitted, we support the IASB's proposal in the interests of narrowing the areas of choice available in standards.

Other comments

Transition from the existing IAS 21

We believe that there may be transitional issues with the proposed revised text of IAS 21. The current text of IAS 21 permits goodwill and fair value adjustments to be treated as assets and liabilities of the reporting entity and translated at the historic rate (IAS 21, paragraph 33(b)). Paragraph 45 of the proposed revised IAS 21 would prohibit this treatment and require such items to be retranslated at the closing rate each year. As the proposed text does not contain any transitional provision, it appears that retrospective restatement will be required, which might pose practical problems for multinational groups as they would be required retrospectively to push down goodwill for retranslation. Hence, we propose that the IASB should include a transitional provision in the revised IAS 21 to the effect that retrospective application of this aspect of the standard will not be required if this would involve undue cost or effort.

IAS 24 RELATED PARTY DISCLOSURES

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

No. The remuneration of key management is important information for the users. In addition, almost any transaction with management could be dressed up as management compensation, and so such an exemption could potentially exempt disclosures with directors completely. (See our comments on stewardship assessment below.)

Key management are defined in the ED. It is not clear why there should be more difficulty measuring transactions with management than with other parties – in particular para 14(a) requires the amount of the transaction to be shown, but does not require its value to be assessed.

2 **Do you agree that the Standard should not require disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or a wholly-owned subsidiary that are made available or published with consolidated financial statements for the group to which that entity belongs (see paragraph 3)?**

Yes. However, we would like to see disclosure in such financial statements of the fact that the exemption has been used. In addition, the phrase "made available or published with consolidated financial statements" should be clarified. Does it mean that the separate financial statements must be annexed to the consolidated ones in some way? Would deposit at a central public registry of all the financial statements that are involved qualify? Or access on websites or from the company's offices?

Other comments

Disclosure of controlling party

We suggest that the IASB consider including a requirement for disclosure of the name of a controlling party and, if different, that of the ultimate controlling party, irrespective of whether there have been any transactions with those parties. Such a disclosure is currently included in the UK standard, FRS 8 'Related Party Disclosures'. If made, this disclosure would confirm to the reader of the financial statements that the entity is not independent in its actions. This has been shown to be important in UK financial reporting experience, and we propose the inclusion of this disclosure in IAS 24.

We are unclear about the expected response to paragraph 12 (disclosure of relationships between parent and subsidiary) especially in the light of current versions of IAS 1 and IAS 27. As noted above, we strongly support including a requirement for disclosure of the controlling party(ies). The proposed IAS 1, para 117(c) requires disclosure of the parent and ultimate parent of the group. However, neither that paragraph nor paragraph 12 of the draft revised IAS 24 appears to catch an individual who controls the reporting entity. We regard this as a grave omission, in the light of various corporate scandals of recent years.

We are not clear about what the IASB are expecting to be disclosed in response to the very woolly paragraph 12 of the draft revised IAS 24. Is this intended to provoke disclosure of the names of subsidiaries that is now proposed for deletion from IAS 27 paragraph 32(a)?

Or does it merely call for disclosure of a parent company if one exists? More clarity is required.

Shadow directors

The current draft description of "key management personnel" implies that such people have contracts of service with the entity, or other formal mechanisms from which they derive their responsibility and authority. However, we consider that this category should also include those persons in accordance with whose instructions the directors and other key management are accustomed to act (known in the UK as 'shadow directors'). Such people may have no formal tie with the reporting entity, but disclosure of transactions with them fulfils the same purpose as disclosure of transactions with directors.

Persons acting in concert

We consider that the lack of mention of persons acting in concert could potentially undermine the effectiveness of IAS 24 as far as individual related parties are concerned, and that they should be referred to, as they are in the current UK standard, FRS 8.

Materiality and stewardship

We believe that IAS 24 should specify that disclosure is required of material related party transactions and give more guidance on materiality in the context of such transactions. The application of materiality has been of great importance in the practical outworking of FRS 8 in the UK, and, in particular, the concept of materiality relating to related parties who are individuals. The proposed revised IAS 24 does not address the concept of stewardship, which is integrated into FRS 8 – we believe it should do so.

Suggested wording changes

The definition of a related party in paragraph 9 would be improved by rewording the first line to read "A party is related to an entity if, at any time during the financial period:".

Paragraph 14 should commence "if there have been transactions with related parties".

Paragraph 17 states that "disclosures...are made only if such disclosures can be substantiated". The use of the word "are" is problematical. Does "are made" mean "should be made" or "should not be made unless"? We assume that it is the latter and would prefer the wording to be changed accordingly. The IASB should also consider how the existing phrase might be translated into other languages.

IAS 27 CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING FOR INVESTMENTS IN SUBSIDIARIES

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

We agree, although we are not convinced that unanimous consent of any minority interest should be required. A requirement for unanimous consent is simple but may lead to group accounts being required in circumstances where the costs outweigh the benefits, for example if there is a dissident or uncontactable minority shareholder. We suggest that the IASB consider the approach currently embodied in UK companies legislation. In the UK, the parent of the company seeking exemption from preparing consolidated accounts must hold more than 50% of the company's shares and group accounts must not have been requested by the holders of more than half of the remaining shares or the holders of 5% of the total shares of the company. Alternatively, the IASB may wish to consider amending the requirement for unanimous consent of the minority to one of no objections from the minority to not preparing group accounts.

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

Yes.

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

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)?

In response to the first part of this question, we accept that the IASB's proposals will reduce the scope for choice by eliminating the option of using the equity method for such investments in the investor's separate financial statements. However, given that a choice will remain between cost and fair value under IAS 39, we see little merit in removing one option whilst still permitting the other two. In addition, the use of the equity method in the parent's separate financial statements has the attraction of aligning shareholders' equity between the parent and group accounts. We favour either retaining the current alternatives or permitting only one treatment. Our preferred treatment would be to carry such investments at cost as we consider that obtaining fair values in accordance with IAS 39 may be unduly burdensome and not provide useful information to users of the financial statements.

We agree with the second part of the question.

Other comments

Disclosure of significant subsidiaries

The IASB has not explained its proposal to delete the disclosure requirement currently set out in paragraph 32(a) of IAS 27. This currently requires disclosure of a listing of significant subsidiaries including name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held. In our view, readers of the accounts may find this information valuable and we therefore suggest that this disclosure be retained. We note that the IASB has included in the draft revised IAS 24 (paragraph 12) a more general requirement to disclose relationships between parents and subsidiaries, but our preference is for the more specific requirement of IAS 27 to be retained.

Publishing consolidated financial statements

Paragraph 8(d) refers to the parent "publishing" consolidated financial statements. It would be helpful to give an indication of what "publish" involves eg a member of the public can access them. (The previous disclosure requirement for the registered office of the parent has been deleted – and we do not disagree with this).

Separate financial statements

The description of "separate financial statements" is tortuous and hard to follow, encompassing paragraphs 4, 8 and 9. Several comments:

The purpose of paragraph 9 is not clear. Is it telling the parent not to prepare any other accounts?

Paragraph 4 refers to preparing financial statements in accordance with IAS 28 or 31. But financial statements are not prepared in accordance with a single IAS, but in accordance with all IFRS.

Quite apart from that, it is unclear what is intended by "separate financial statements". It seems to encompass parent company accounts produced in addition to consolidated accounts (from para 4) and non-consolidated financial statements of a parent exempt under para 8. But what is "in addition to financial statements prepared in accordance with" IAS 28, or IAS 31? If a company with an associate prepared financial statements, IAS 28 would require it to use the equity method irrespective of whether the financial statements were consolidated or company only – what additional financial statements might it produce? More clarity is required.

IAS 28 ACCOUNTING FOR INVESTMENTS IN ASSOCIATES

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 organisations, mutual funds, unit trusts and similar entities if these investments are measured at**

fair value in accordance with IAS 39, Financial Instruments: Recognition and Measurement, when such measurement is well-established practice in those industries (see paragraph 1)?

We agree, provided that the meaning of "venture capital organisation" and "well-established practice in those industries" are unambiguous. We suggest that the IASB consider including a definition of the former term in the revised standard. However, we would not support an extension of this exemption to cover similar investments that would otherwise be treated as subsidiaries.

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

We agree, provided that such long-term receivables are not thereby stated at an amount below their recoverable amount.

Other comments

We note that the requirement to disclose an appropriate listing and description of significant associates in paragraph 27(a) of the current IAS 28 is proposed for deletion. In our view, this disclosure requirement provides valuable information and should be retained.

Paragraph 27(b) of the proposed revised standard introduces a requirement to disclose summarised financial information of associates. It is not clear from the draft text whether this applies to associates individually or in aggregate. We assume that it is the latter but it may be helpful to clarify the wording on this point.

Paragraph 24A requires an associate to be accounted for in the separate financial statements of the investor either at cost or fair value (under IAS 27). However, paragraph 8A requires that the equity method be used irrespective of whether the investor has subsidiaries, in which case it would not present consolidated financial statements, but only separate ones. Perhaps this issue is related to the confusing description of separate financial statements to which we refer in our comments on IAS 27. In any case, more clarity is required.

IAS 33 EARNINGS PER SHARE

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?**

Yes. The rebuttable presumption that the contract will be settled in shares should be allowed only where there is past experience of settling similar contracts in shares or where there is a stated policy.

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).**

No. It should be the second option, without regard to diluted EPS information reported during the interim period(s). The performance statement is a report for a period, not a report for the sum of a number of constituent periods. In our view, the first option would hinder comparability, and would require the audit of figures in the 'interim' report. It would be ludicrous for two companies with identical performance and results to report different annual EPS because one of them had reported interim figures (or more interim figures than the other).

- **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.**

No. We support the second option, for the reasons given in our response above.

- **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).**

No. We support the second option, for the reasons given above.

Other comments

Contingently issuable shares

It is not clear to us why the definition of contingently issuable ordinary shares should require that they will be issued for "little or no cash". Although this may be the norm, it is the future satisfaction of conditions that is the defining characteristic and principle. Including the phrase about the cash amount may incite financial engineers to develop instruments that bend round the rules.

Clarification on when potential ordinary shares are dilutive

It might be helpful to clarify paragraph 37 of the draft to the effect that potential ordinary shares are only dilutive where they decrease EPS or increase loss per share.

Diluted EPS

The exposure draft does not give any guidance on how to estimate profit or loss from continuing operations. In particular, there is no guidance on allocation of interest and tax. Such guidance could usefully be included in the revised IAS 33, or cross-referred from IAS 35 if that is where the guidance is to be given.

Disclosure

The current UK standard, FRS 14 'Earnings per Share' includes additional guidance in respect of the presentation of financial statistics in historical summaries, but there is no equivalent guidance in the draft revised IAS 33. This could lead to reduced comparability within a single annual report and between companies. We recommend that the IASB consider including equivalent guidance in the revised IAS 33.

IAS 40 INVESTMENT PROPERTY

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:**

(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?**

Yes.

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?**

Yes.

3 **Do you agree that the Board should not eliminate the choice between the cost model and the fair value model in the Improvements project, but should keep the matter under review with a view to reconsidering the option to use the cost model in due course?**

We believe that the IASB should eventually standardise on a single approach to investment property, based on fair values. However, we agree that this cannot be achieved within the scope and timescale of the improvements project.