THE
INSTITUTE OF
CHARTERED
ACCOUNTANTS
OF SCOTLAND

AH/ASC-SUB/mb

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

11 January 2008

Dear Sir or Madam

IASB EXPOSURE DRAFT OF PROPOSED IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Institute's Accounting Standards Committee has considered the above Exposure Draft and I am pleased to set out its comments below.

The Institute is the first incorporated professional accountancy body in the world. The Institute's Charter requires the Accounting Standards Committee to act primarily in the public interest, and our responses to consultations are therefore intended to place the general public interest first. Our Charter also requires us to represent our members' views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

General comments

We welcome the introduction of a streamlined process for dealing effectively with minor amendments, and believe that it is vital to ensure that these amendments are at an appropriate level. Some of the amendments we have identified below could have wide-ranging implications and we question whether these should have been included in the annual improvements process. Conversely, amendments should not be so trivial as to give rise to the perception that IFRSs are rules-based.

We have not studied all of the proposed amendments in detail; instead our comments on what we saw as the key issues are set out below.

Improvement 4 – IAS 1 (statement of compliance with IFRSs)

IASB Q4: Do you agree with the proposal to require an entity that cannot make an unreserved statement of compliance with IFRSs to describe how its financial statements would have been different if prepared in full compliance with IFRSs? If not, why?

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We do not agree with this proposal since we see the issue of non-compliance with IFRSs as the responsibility of regulators rather than of the IASB. While we agree that it is important for users of financial statements to understand whether those financial statements comply with full IFRSs or not, this is not an issue that can be appropriately addressed within an IASB standard. The additional burden of making disclosures about differences from full IFRS could act as a deterrent to convergence for some jurisdictions and entities. The proposal would also be unhelpful in jurisdictions where there is an endorsement process for new IFRSs which results in a time delay between adoption by the IASB and jurisdictional adoption. The potential impact of this proposed amendment is such that it should not be addressed through the annual improvements process.

Improvement 5 – IAS 1 (current/non-current classification of convertible instruments)

IASB Q5: Do you agree with the proposal to clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current? If not, why?

We agree with the general principle that the potential settlement of a liability by the issue of equity is not relevant to its classification as current. However, we do not agree with the proposed amendment because obligations with settlement other than by the transfer of cash or other assets (e.g. the provision of services) are not included and therefore would not be treated as current.

Improvement 6 – IAS 1 (current/non-current classification of derivatives)

IASB Q6: Do you agree with the proposal to amend the examples in paragraphs 68 and 71 of IAS 1 to remove the potential implication that financial assets and financial liabilities that are classified as held for trading in accordance with IAS 39 are required to be presented as current? If not, why?

We agree that the current guidance in IAS 1 may suggest that all assets and liabilities held for trading in accordance with IAS 39 should be classified as current, but we believe that the proposed amendments further confuse the situation. It would be more helpful to add some text explaining that some financial assets and liabilities held for trading in accordance with IAS 39 may not be realisable or due for settlement within 12 months therefore would not be presented within current assets/liabilities.

Improvement 10 – IAS 16 (sale of assets held for rental)

IASB Q10: Do you agree with the proposal to amend paragraph 68 of IAS 16 and paragraph 14 of IAS 7? If not, why?

We disagree with the part of the amendment to IAS 7 which states that 'cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale…are cash flows from operating activities.' We believe that these payments should be treated as investing activities as they relate to items of property, plant and equipment.

Improvement number 30 – IAS 39 (definition of a derivative)

IASB Q30: Do you agree with the proposal to amend IAS 39 by removing from the definition of a derivative the exclusion relating to contracts linked to non-financial variables that are specific to a party to the contract? If not, why?

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We do not agree with this proposal as we believe that it potentially has implications for a wide range of contracts other than those within the scope of IFRS 4. A much fuller analysis of the potential impact is required before this proposal can be adopted.

Improvement number 35 – IAS 40 (property being constructed or developed for future use as an investment property)

IASB Q35: The exposure draft proposes to include property under construction or development for future use as an investment property within the scope of IAS 40. Do you agree with the proposal? If not, why?

While we do not disagree with the proposal, we believe that it represents a relatively significant change in accounting, and therefore should not have been dealt with through the annual improvement process.

I hope our comments are useful to you in the finalisation of these amendments. If you wish to discuss any of them, please do not hesitate to contact me.

Yours faithfully

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Assistant Director, Accounting and Auditing
Secretary to the Accounting Standards Committee

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