FIRSTRAND
Banking Group

MEMORANDUM
Finance, Risk and Audit Services

TO	:	International Accounting Standards Board
FROM	:	FirstRand Group Technical Accounting
DATE	:	January 2008
RE	:	Comments on the proposed improvements to International Financial Reporting Standards

1 INTRODUCTION

We support the first annual improvements projects and appreciate the effort by the Board to continually improve the quality of financial reporting standards. Please find below our responses to the specific questions as requested in the invitation to comment.

2 RESPONSE TO SPECIFIC QUESTIONS

2.1 Proposed amendments to IFRS 1 First-time adoption of International Financial Reporting Standards ("IFRS 1")

Question 1

Do you agree with the Board's proposed restructuring of IFRS 1? If not, why?

We don't have any comments on the proposed amendments to IFRS 1.

2.2 Proposed amendment to IFRS 5 Non-current assets held for sale and discontinued operations ("IFRS 5")

Question 2

Do you agree with the proposal to add paragraph 8A to IFRS 5 to clarify that assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving the loss of control of the subsidiary? If not, why?

We agree with the proposed treatment of assets and liabilities of a subsidiary

2.3 Proposed amendment to IFRS 7 Financial instruments: Disclosures ("IFRS 7")

Question 3

The Board proposes to amend paragraph IG13 of the guidance on implementing IFRS 7 Financial instruments: Disclosures to resolve the potential conflict with IAS 1. Do you agree with the proposal? If not, why?

We agree with the Board's proposed amendment to paragraph IG 13 of IFRS 7.

2.4 Proposed amendments to IAS 1 Presentation of financial statements ("IAS 1")

Question 4

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 IFRS? If not, why?

We disagree with this proposal.

We believe that to allow an additional blanket provision for non-compliance with IFRS would be against the objectives of financial statements. We also believe that if an entity can obtain the information required to disclose how the financial statements would have differed if IFRSs had been applied in full then there is no reason why the entity can not comply in full with IFRS and the guidance in IAS 1.19 and 20.While we understand the necessity for such a provision we believe that a blanket provision for non compliance with IFRS undermines the quality of the Board's goal of producing a single, global accounting framework. Such a provision will also be open for manipulation. We therefore propose that if the Board does proceed with the amendment that such an amendment be accompanied by rules for the application thereof to minimise the manipulation and possible negative effects on the credibility of IFRS.

In addition IAS 1.15 states that financial statements shall present fairly the financial position, financial performance and cash flows of an entity and that the application of IFRSs is presumed to result in financial statements which achieve fair presentation. IAS 1 further states that where management believes that a requirement of IFRS is misleading and conflicts with the objective of financial statements set out in the Framework management may depart from the requirement provided certain requirements are met and that certain required disclosures are provided (IAS 1. 19 and 20).

Question 5

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 proposal.

Question 6

Do you agree with the proposal to amend the examples in paragraphs 68 and 71 of IAS 1 to remove the potential implication the at 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 with the proposal.

2.5 Proposed amendment to IAS 8 Accounting policies, changes in accounting estimates and errors ("IAS 8")

Question 7

Do you agree with the proposal to amend paragraph 7, 9 and 11 of IAS 8 to clarify the status of implementation guidance? If not, why?

We agree with the proposal.

2.6 Proposed amendment to IAS 10 Events after the reporting period ("IAS 10")

Question 8

Do you agree with the proposal to amend paragraph 13 of IAS 10 to clarify why a dividend declared after the reporting period does not result in the recognition of a liability at the end of the reporting period? If not, why?

We don't believe that the original wording of IAS 10 was unclear but don't disagree with the proposed amendment to the statement. We do however recommend that the word present obligation be inserted to ensure that the description is consistent with the wording in *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37") and that the reference to IAS 37 is applicable and useful.

2,7 Proposed amendments to IAS 16 Property, plant and equipment ("IAS 16")

Question 9

Should the definition of recoverable amount in IAS 16 be amended to remove the perceived inconsistency with "recoverable amount" used in other IFRSs? If not, why?

We agree with the proposal.

Question 10

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

We agree with the Board's proposal to amend paragraph 68 of IAS 16 and paragraph 14 of IAS 7.

2.8 Proposed amendments to IAS 17 Leases ("IAS 17")

Question 11

Do you agree with the proposal to amend paragraphs 14 and 15 of IAS 17 to eliminate a perceived inconsistency between the specific classification guidance for leases of land and buildings and the general lease classification guidance in IAS 17? If not, why?

We agree with the proposed amendments to paragraphs 14 and 15 of IAS 17.

Question 12

Do you agree with the proposal that contingent rent relating to an operating lease should be recognised as incurred? If not, why?

We agree with the proposal.

2.9 Proposed amendment to the guidance on International Accounting Standard 18 Revenue ("IAS 18")

Question 13

Do you agree with the proposed amendment to the guidance on IAS 18 to explain that the definition of the transaction costs to be applied to the accounting for financial asset origination fees are those defined in IAS 39? If not, why?

We agree with the proposed amendment.

2.10 Proposed amendments to IAS 19 Employee benefits ("IAS 19")

Question 14 (a)

Do you agree that IAS 19 should be amended to clarify that when a plan amendment reduces the benefits for future service, the reduction relating to future service is a curtailment and any reduction relating to past service cost is negative past service cost? If not, why?

We agree with the amendments to IAS 19.

Question 14 (b)

Do you agree that the Board should delete the following sentence from paragraph 111 of IAS 19: "An event is material enough to qualify as a curtailment if the recognition of a curtailment gain or loss would have a material effect on the financial statements? If not, why?

We agree with the proposal to delete the materiality references from IAS 19, we believe that the application of the requirements of IAS 8.8 with respect to materiality will also apply to the treatment of curtailments in terms of IAS 19 and therefore the reference to materiality in IAS 19 is not necessary.

Question 15

Do you agree with the proposal to amend the definition of return on plan assets in paragraph 7 of IAS 19 to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation? If not, why?

We agree with the proposed amendments.

Question 16

Do you agree with the proposal to replace in IAS 19 the term "fall due" with the notion of employee entitlement in the definitions of short-term employee benefits and other long-term employee benefits? If not, why?

We agree with the proposal.

Question 17

Should the reference in IAS 19 to recognising contingent liabilities be removed? If not, why?

We agree with the board's proposal.

2.11 Proposed amendments to IAS 20 Accounting for government grants and the disclosure of government assistance ("IAS 20")

Question 18

Do you agree with the proposal to conform terminology used by IAS 20 to the equivalent defined or more widely used terms? If not, why?

We agree with the proposal.

Question 19

Do you agree with the proposed amendments to IAS 20 to clarify that the benefit of a loan received from a government with a below-market rate of interest should be quantified by the imputation of interest in accordance with IAS 39? If not, why?

We agree with the proposed amendments.

2.12 Proposed amendment to IAS 23 Borrowing costs ("IAS 23")

Question 20

Do you agree with the proposal to amend paragraph 6 of IAS 23 to refer to the guidance in IAS 39 Financial instruments: Recognition and measurement relating to effective interest rate when describing the components of borrowing costs? If not, why?

We agree with the proposal.

2.13 Proposed amendment to IAS 27 Consolidated and separate financial statements ("IAS 27")

Question 21

Do you agree with the proposal to require investments in subsidiaries that are accounted for in accordance with IAS 39 in the parent's separate financial statements to be accounted for on that basis when classified as held for sale (or included in a disposal group that is classified as held for sale)? If not, why?

We agree with the proposal.

2.14 Proposed amendments to IAS 28 Investments in associates ("IAS 28")

Question 22

Do you agree with the proposal to clarify the disclosures required of an investor in an associate that accounts for its interest in the associate at fair value in accordance with IAS 39, with the changes in fair value recognised in profit or loss? If not, why?

We agree with the proposal to clarify the disclosures required if an investor in an associate accounts for the associate in accordance with IAS 39. The proposed amendments require that the disclosures required by IFRS 7 and IAS 28. 37(f) be applied to such associates. We believe that in addition to these, the disclosures required by IAS 28.40 would be useful to the users of the financial statements of the investor as the parent has significant influence rather than an investor relationship as is common in most financial instruments.

Question 23

Do you agree with the proposal to amend paragraph 33 of IAS 28 to clarify the circumstances in which an impairment charge against an investment in an associate should be reversed? If not, why?

We do not agree with the proposed amendment to paragraph 33 of IAS 28. It is specifically stated in IAS 28.20 that the same procedures and concepts used in accounting for the acquisition of a subsidiary are to be adopted in accounting for the acquisition of an associate. Although an associate is a single asset the application of IAS 28.20 results in goodwill attributable to associates being separately identifiable at initial recognition. Therefore the separately identifiable goodwill in an associate is recognised and measured in the same manner as the separately identifiable goodwill in a subsidiary at initial recognition.

The proposed amendment results in inconsistent treatment of the separately identifiable goodwill of an associate and the separately identifiable goodwill of a subsidiary subsequent to initial recognition. In addition the proposed amendments create an inconsistency between the initial and subsequent measurement of goodwill in an associate.

For the following reasons we are also concerned that the proposed amendments to IAS 28 indicate that the factors in IAS 39 should be used as a basis for determining whether an investment in an associate may be impaired:

- Investments in associates are specifically scoped out of IAS 39.
- The impairment indicators in IAS 39 are categorised into investments held at cost, investments held at amortised cost and available-for-sale financial assets. Associates would not be appropriately classified as cost or amortised cost and therefore would need to be treated as available-for-sale financial assets for purposes of determining impairment, this is not consistent with the nature of an investment in an associate.

We also believe that the proposed treatment of the reversal of the impairment loss may lead to the recognition of internally generated goodwill which is inconsistent with the treatment required by *IAS 36 Impairment of Assets* ("IAS 36") paragraphs 124 and 125.In addition as described above the most appropriate IAS 39 classification for determining impairments of associates is considered to be available-for-sale. IAS 39 does not permit the reversal of impairment losses recognised on equity instruments classified as available-for-sale. Therefore permitting the reversal of an impairment loss on an investment in an associate is contrary to the provisions of both IAS 36 and IAS 39.

In addition, we believe that referring to the impairment requirements of both IAS 39 and IAS 36 would create confusion and inconsistent application as the requirements are not the same.

2.15 Proposed amendments to IAS 29 Financial reporting in hyperinflationary economies ("IAS 29")

Question 24

Do you agree with the proposal to update the description of historical cost financial statements in paragraph 6 of IAS 29 and to conform terminology in IAS 29 to the equivalent defined or more widely used terms? If not, why?

We agree that with the proposal.

2.16 Proposed amendment to IAS 31 Interests in joint ventures ("IAS 31")

Question 25

Do you agree with the proposal to clarify the disclosures required of a venturer in a jointly controlled entity that accounts for its interests in the jointly controlled entity at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss? If not, why?

We agree with the proposed amendments, but in line with our comments on the proposed amendments to IAS 28, believe that in addition to the proposed disclosure requirements the disclosures required by IAS 31.54 would be useful to the users of financial statements.

2.17 Proposed amendment to IAS 34 Interim financial reporting ("IAS 34")

Question 26

Do you agree with the proposal to amend paragraph 11 of IAS 34 to require the presentation of basic and diluted earnings per share only when the entity is within the scope of IAS 33? If not, why?

We agree with the proposal.

2.18 Proposed amendment to IAS 36 Impairment of assets ("IAS 36")

Question 27

Do you agree with the proposal to amend paragraph 134(e) of IAS 36 to require the same disclosures to be given for fair value less costs to sell as a re required for value in use when discounted cash flows are used to calculate fair value less costs to sell? If not, why?

We agree with the proposal to amend paragraph 134 (e) of IAS 36 to ensure that consistent disclosures are made when discounted cash flows are used to determine fair value less costs to sell regardless of whether the amount is classified as fair value less costs to sell or value in use. Although we do believe that if an entity complies with IAS 1.116, when discounted cash flows are used to determine fair value less costs to sell, similar disclosure would be presented and therefore don't expect that the amendment will result in significant additional information being disclosed.

2.19 Proposed amendments to IAS 38 Intangible assets ("IAS 38")

Question 28 (a)

Do you agree that IAS 38 should emphasise that an entity should recognise expenditure on an intangible item as an expense when it has access to the goods or has received the services? If not, why?

We agree with the Board's proposals to emphasise when an expense has been incurred. This however raises the question as to whether the Framework for Preparation and Presentation of Financial Statements contains sufficient guidance to determine when an expense is incurred.

We believe that the proposed amendments to IAS 38 provide valuable guidance for determining when an expense is incurred, however we believe that the guidance proposed by the Board would be better suited to the Framework for the preparation and presentation of financial statements or IAS 1 rather than IAS 38 in order that it may be applicable to all expenses and not only that expenditure incurred on an intangible items.

Question 28 (b)

Do you agree that paragraph 70 of IAS 38 should be amended to allow an entity to recognise a prepayment only until it has access to the related goods or has received the related services? If not, why?

Refer to question 28 (a). We agree with the guidance provided but do not believe that IAS 38 is the appropriate location for such guidance.

Question 29

Do you agree with the proposal to remove the last sentence of paragraph 98 of IAS 38 regarding the amortisation method used for intangible assets? If not, why?

We agree with the proposal.

2.20 Proposed amendments to IAS 39 Financial instruments: recognition and measurement ("IAS 39")

Question 30

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?

We agree with the proposed amendments.

Question 31 (a)

Do you agree with the proposal to amend IAS 39 to clarify the definitions of a financial instrument classified as held for trading? If not, why?

We agree with the proposal.

Question 31 (b)

Do you agree with the or proposal to insert in IAS 39 paragraph 50A to clarify the changes in circumstances that are not reclassifications into or out of the fair value through profit or loss category? If not, why?

We do agree with the proposal.

Question 32

Do you agree with the proposal to amend paragraph 73 of IAS 39 to remove the references to segments and segment reporting? If not, why?

We agree with the proposal.

Question 33

Do you agree with the proposal to amend paragraph AG 8 of IAS 39 to clarify that the revised effective interest rate calculated in accordance with paragraph 92 should be used, when applicable, to remeasure the financial instrument in accordance with paragraph AG 8? If not, why?

We agree with the proposed amendments.

Question 34

Do you agree with the proposal to amend paragraph AG30(g) of IAS 39 to clarify that prepayment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from reinvestment risk, as described in paragraph AG 33(a), are closely related to the host debt contract? If not, why?

We agree with the proposed amendments to IAS 39. AG 30(g). In order to give the paragraph a more logical flow we propose the following wording**:**
“A call, put, or prepayment option embedded in a host debt contract or host insurance contract is not closely related to the host contract unless the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument or the carrying amount of the host insurance contract. <u>However, a prepayment option for which the exercise price compensates that lender for loss of interest by reducing the economic loss from reinvestment risk, as described in paragraph AG33(a), is closely related to the host debt contract</u>. From the perspective of the issuer of a convertible debt instrument with an embedded call or put option feature, the assessment of whether the call or put option is closely related to the host debt contract is made before separating the equity element under IAS 32.

2.21 Proposed amendments to IAS 40 Investment property (“IAS 40”)

Question 35

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

We agree with the proposed amendment.

Question 36

Do you agree with the proposal to conform terminology used in paragraph 31 of IAS 40 to the terminology used in IAS 8? If not, why?

We agree with the proposal.

Question 37

Should paragraph 50(d) of IAS 40 be amended to clarify the accounting for investment property held under a lease? If not, why?

We agree with the proposed amendment.

2.22 Proposed amendment to IAS 41 Agriculture ("IAS 41")

Question 38

Do you agree with the proposal to replace the terms "point-of-sale costs" and "estimated point-of-sale costs" in IAS 41 with "costs to sell"? If not, why?

We agree with the proposed amendments.

Question 39

Do you agree with the proposed amendment to IAS 41 to permit either a pre tax or a post tax discount rate to be used according to the valuation methodology used to determine fair value? If not, why?

We agree with the amendments.

Question 40

Do you agree with the proposal to remove the exclusion of "additional biological transformation" from paragraph 21 of IAS 41? If not, why?

We agree with the proposal.

Question 41

Do you agree with the proposed amendments to the examples in paragraph 4 of IAS 41? If not, why?

We agree with the proposed amendments.