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International Accounting Standards Board
30 Cannon Street
London
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Dear Sir or Madam

Exposure Draft *Improvements to International Financial Reporting Standards*

We are grateful for the opportunity to respond to the proposals in the first annual improvements project. Our responses below are limited to specific items within the Exposure Draft.

Proposed amendment to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

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 loss of control of the subsidiary? If not, why?

Whilst it may be of benefit for users to understand the general impact on the balance sheet of a future sale if significant (in terms of assets and liabilities expected to be removed and replaced with a single line item), this could provided by an additional disclosure requirement and we do not consider that it is useful for the entire subsidiary to be classified as held for sale. For example, it would apply to the sale of 2% of an entity resulting in a 49% significant influence holding from a previous 51% controlling interest. The amendment also raises the question of whether or not the same principle should be applied to disposal plans that result in the loss of joint control and/or significant influence.

We also note that inconsistencies could arise in the initial measurement of the retained interest (joint venture, associate or financial asset) at the date control is lost, and therefore in the gain/loss reported on disposal. IFRS 5 requires the immediate write-down of the disposal group to fair value less costs to sell (if lower than carrying amount) and the cessation of depreciation and amortisation; this measurement basis may be incompatible with that required for the retained interest. We would recommend expanding the amendment to clarify this issue.

Proposed amendment to IFRS 7 Financial Instruments: Disclosures

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 proposed amendment.

Proposed amendment to IAS 1 Presentation of Financial Statements

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 IFRSs

Whilst we have some sympathy with the alternative views expressed by two Board members in paragraph AV3, we agree with the proposed amendment.

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 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 with the proposed amendment.

Proposed amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

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

We agree with the proposed amendment, subject to suggesting that it seems unnecessary (in paragraph 9) to state that Implementation guidance for IFRSs includes "guidance on implementation".

Proposed amendment to IAS 10 Events after the Reporting Period

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 agree that the proposed amendment will improve clarity.

Proposed amendment to IAS 16 Property, Plant and Equipment

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 that the proposed amendment will improve consistency.

Proposed amendment to IAS 17 Leases

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 that the requirements set out in paragraphs 14 and 15 are inconsistent with the general lease guidance in IAS 17 and that the Standard will be improved by the proposed amendments.

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 that the inconsistency in the treatment of contingent rents is unhelpful and that the recognition method required by the proposed amendment is appropriate.

Proposed amendment to IAS 19 Employee Benefits

Question 14(a): Do you agree that IAS 19 should be amended to clarify that when a plan amendment reduces benefits for future service, the reduction relating to future service is a curtailment and any reduction relating to past service is negative past service cost? If not, why?

We agree with the proposed change as reflecting the intent of IAS 19 paragraph 111, but suggest clarifying how a reduction in the defined benefit obligation could then arise from a curtailment - since this would be defined as relating to *future* service, whereas the defined benefit obligation values only *past* service up to the balance sheet date (IAS 19 paragraphs 65 and 69).

Our assumption is that the curtailment element would reflect the impact of future salary increases on past service valuation, and could also arise from straight-line allocation of benefits under IAS 19 paragraph 67 (i.e. where employee service in later years earns higher benefits under a plan benefit formula).

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 that the sentence should be deleted since materiality is already covered, for all standards, by IAS 1.

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 amending paragraph 7 in order to eliminate the risk of plan administration costs being double-counted. In order to ensure consistency (and to avoid creating an option), we suggest also clarifying the exact circumstances in which these costs could be included in the measurement of the defined benefit obligation rather than within the return on plan assets.

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 proposed amendment.

Question 17: Should the reference in IAS 19 to recognising contingent liabilities be removed? If not, why?

We agree with the proposed amendment, since contingent liabilities may be disclosed but are never recognised.

Proposed amendment to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

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 that the proposed amendments will improve the clarity of the Standard.

Paragraph BC3 notes that the statement in paragraph 12 referring to the recognition of government grants directly in shareholders' interests is redundant. As a consequence of this proposed amendment, we would also suggest that the discussion in paragraphs 13 to 15 be deleted for the same reason.

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 that the proposed amendment is merited and helpful.

Proposed amendment to IAS 23 Borrowing Costs

Question 20: Do you agree with the proposal to amend paragraph 6 of IAS 23 to refer to the guidance in IAS 39 relating to effective interest rate when describing the components of borrowing costs? If not, why?

We agree with the proposed amendment, in that reference in IAS 23 to the definition of the effective interest method in IAS 39 (paragraph 9) would improve consistency.

Proposed amendment to IAS 28 Investments in Associates

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 agree that an amendment is useful to provide clarity, however we have two comments on the final sentence of the proposed next text in paragraph 33. Firstly we are not certain that it is complete, in comparison with the relevant sections of paragraphs 109-116 in IAS 36 Impairment of Assets. In particular, should there be a restriction that reversal is only permitted to the extent there has been a change in the estimates used to determine the initial impairment? If not, then it would also be useful to make that clear. Secondly, and of rather less importance, we suggest that for consistency (both within IAS 28 and with IAS 36) the sentence should refer to the impairment loss in the singular rather than plural.

Proposed amendment to IAS 29 Financial Reporting in Hyperinflationary Economies

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 with the proposal, which would bring IAS 29 terminology and discussion of measurement in line with other IFRSs.

Proposed amendment to IAS 36 Impairment of Assets

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 are 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, which will provide consistency and clarity.

Proposed amendment to IAS 38 Intangible assets

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 have one minor comment on this proposal. The purpose of the amendment is to clarify the meaning of "as incurred" and in fact has changed these words in paragraph 69. It then seems inconsistent and confusing to continue to use "as incurred" twice later in that same paragraph.

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?

We suggest that the overall nature of the service being rendered should be considered when determining the timing of prepayment release.

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 removal of this sentence.

Proposed amendment to IAS 39 Financial Instruments: Recognition and Measurement

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 that the existing text could create diversity in practice, given that its purpose – to exclude contracts of an insurance nature – is not explained. However the point covered is in our view an important one that might be overlooked by non-insurers. We therefore suggest retaining the current text of IAS 19 paragraph 9(a) (consistent with IFRS 4 paragraph B19(e)) and adding a phrase to the effect that contracts covered by the exclusion fall within the scope of IFRS 4.

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, since the references to segments as entities are inconsistent with IFRS 8 and should be removed.

Yours sincerely.

Bob Deere

Vice President Accounting and Reporting