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NEW ZEALAND INSTITUTE OF CHARTERED ACCOUNTANTS

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Dear Dora

IASB Exposure Draft of Proposed Improvements to International Financial Reporting Standards

The Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants (the Institute) is pleased to submit its comments on the Exposure Draft of Proposed Improvements to International Financial Reporting Standards (ED). The FRSB sought the views of New Zealand constituents on the ED and has forwarded the relevant submissions received to the IASB.

Annual improvement process

The FRSB agrees that it is efficient to expose for comment a collection of miscellaneous, non-urgent but necessary small amendments to IFRSs in a single exposure draft, instead of publishing a separate exposure draft for each of the proposed amendments. We also support the posting of the near-final draft of the proposed amendments on the IASB website before the ED is published as this process is helpful.

The ED labels the proposed amendments as 'minor'. We do not believe that this is the case as some of the proposals have significant impact. In these cases, such as amendments to the scope of a Standard(s), the magnitude of their impact warrants separate exposure to ensure that sufficient consultation occurs. For example, improvement no. 35: IAS 40–*Property under construction or development for future use as investment property* and improvement no. 30: IAS 39–*Definition of a derivative.* We do not believe that appropriate consultation on those amendments has occurred by including those amendments in an ED that contains a large number of amendments with varying degrees of consequences.

Because some of the amendments are significant, we do not believe the 90-day comment period was sufficient, especially given the large volume of amendments. We note that the comment period of 90 days was deemed appropriate as near-final drafts of the proposed amendments were made publicly available before the publication of the ED. However, in a few cases, significant amendments were made to the near-final drafts posted on the website. It is therefore difficult to consider the near-final drafts when they may be altered before the publication of the exposure draft. Also, in our experience 'editorial' amendments that occur between when near-final drafts are published and the final pronouncement may have a significant impact.

We also consider that future exposure drafts should be structured to highlight those amendments that have more effect. For example, when releasing the ED in our jurisdiction, we have grouped the amendments into four categories, and highlighted the amendments that introduce new requirements, to assist our constituents in considering the large number of small amendments proposed in the ED.[1]

[1] The four categories are: introduce new requirements, clarify current requirements, rectify inconsistent requirements, and rectify inconsistent terminology.

Early application of the proposals

We disagree with the proposal that the amendments can be applied early (ie before 1 January 2009) only if the entity applies (i) all the amendments introduced by the first annual improvements project and (ii) IAS 1 *Presentation of Financial Statements* (as revised in 2007). The proposed criteria creates unnecessary cost for entities wanting to adopt early any of the proposals. (We are aware that some entities would like to adopt early the proposed amendments to certain Standards). Also, this proposal is inconsistent with the early adoption criteria for past amendments to IFRSs. We disagree with the first criterion because the majority of the proposed amendments to individual Standards are unrelated to the proposed amendments to other Standards. We do not support the second criterion because the majority of the proposed amendments are unrelated to IAS 1 (revised 2007). We recommend that selective early application of the proposed amendments to individual IFRSs be permitted, where possible.

Consequential amendments

We note that some of the proposed amendments will result in consequential amendments to the relevant Standards' Basis for Conclusions and Implementation Guidance. (For example, the proposed restructuring of IFRS 1 will result in consequential amendments to IFRS 1's Basis for Conclusions and Implementation Guidance.) However, we note that these consequential amendments are not set out in the IASB ED; and that not doing so, is inconsistent with the format of past exposure drafts. For completeness and transparency, we recommend future exposure drafts include amendments to the relevant Basis for Conclusions and Implementation Guidance, if any. As some of the proposals have a significant impact, the effect on all IFRSs literature should be fully explained.

Disclosure of the impact of the finalised amendments

We believe that some guidance is needed on the interaction between the application of the disclosure requirements of paragraph 30 of IAS 8 and the amendments when finalised. Paragraph 30 of IAS 8 requires disclosure of information when an entity has not applied a new Standard or Interpretation that has been issued but is not yet effective. We note that some preparers and enforcement agencies have been applying the disclosure requirements in paragraph 30 of IAS 8 without regard to the materiality of the new Standard, or Interpretation, for a particular entity. For example, an entity disclosing, or being required to disclose, that they have not applied IFRIC 12 *Service Concessions* when the entity has no relevant transactions under the scope of that Interpretation. Consequently, some entities may, or may be forced to, disclose a long litany of all the amendments resulting from this ED, once the proposals in this ED has been finalised.

FRSB response to questions

Responses to the specific questions raised in the Exposure Draft are attached to this letter.

If you have any queries or require clarification of any matters in this submission, please contact Joanna Yeoh (joanna.yeoh@nzica.com) in the first instance, or me.

Yours sincerely

Joanna Perry

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Question 1

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

We agree with the proposal to restructure IFRS 1 to remove some transitional provisions relating to particular IFRSs from the main body of IFRS 1 to appendices and to remove the transitional provisions that are no longer relevant, to improve the clarity and readability of IFRS 1.

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?

We 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, to reduce ambiguity on this issue.

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 proposal to amend paragraph IG13 of the guidance on implementing IFRS 7 *Financial Instruments: Disclosures*. We agree that the unamended paragraph IG13 does appear to conflict with 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 IFRSs? If not, why?

We do not 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.

We consider it appropriate that users are clearly able to differentiate between entities that fully comply with IFRSs and those that do not. However, we believe that the proposed disclosure does not achieve this aim and that it is not the IASB's role to propose such disclosure requirements.

Instead we believe that such disclosure requirements condone non-compliance with IFRSs and, consequently, may encourage further non-compliance with IFRSs. Also, it is impossible to ensure that entities not complying with IFRSs will comply with the proposed disclosure. We note that the proposed disclosures are meant to enable auditors and regulators to require the proposed additional information. However, it is unclear how regulators and auditors will be able to enforce the proposed disclosure when those entities are not complying fully with IFRSs in the first place.

The proposed disclosure also creates a stumbling block for standard setters that adapt IFRSs for the use of entities other than capital markets participants, for which IFRSs are intended for. For example, we have adapted IFRSs for application by public sector and not-for-profit entities, and profit-oriented entities with no public accountability in our jurisdiction. Our procedures are designed to ensure that profit-oriented entities with public accountability can claim full compliance with IFRSs. If this disclosure is inserted into IAS 1, we intend to exempt public sector and not-for-profit entities, and profit-oriented entities with no public accountability from this disclosure, as this disclosure is not intended for these entities.

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 that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current and, hence, 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 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?

The FRSB agrees that financial assets and financial liabilities that are classified as 'held for trading' in accordance with IAS 39 should not necessarily be classified as current. The 'held for trading' category in IAS 39 includes financial instruments that are not held primarily for the purpose of trading (ie derivatives that are not hedging instruments). However, the proposal may lead to further confusion as, superficially, financial instruments classified as 'held for trading' (under IAS 39) appear to be held for the purpose of trading (consistent with the criterion in IAS 1 for the classification of current assets). Instead of the proposed amendment in the ED, it may be appropriate to amend the definition of 'financial asset or financial liability at fair value through profit or loss' in IAS 39 so that derivatives are a separate sub-category instead of being included in the 'held for trading' sub-category.

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 proposal to amend paragraphs 7, 9 and 11 of IAS 8 to clarify the status of implementation guidance, as it is consistent with the current status of implementation guidance in IFRSs.

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 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, as this is consistent with current requirements.

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 to amend the definition of recoverable amount in IAS 16 to remove the perceived inconsistency with the term 'recoverable amount' used in other IFRSs.

Question 10

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

In general, we agree with the proposal to amend paragraph 68 of IAS 16 and paragraph 14 of IAS 7. However, we believe that a revision is needed to ensure the scope of the proposed amendment does **not** apply to assets held for rental that are then *sold for scrap,* ie assets held for rental and sold for scrap should still be accounted for under IAS 16. In these situations, the requirements of paragraph 68 of IAS 16 are appropriate.

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 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. We note that classification of certain leases of land as a finance lease is appropriate where the lease transfers substantially all of the risks and rewards of ownership.

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 that contingent rent relating to an operating lease should be recognised as incurred, as it clarifies the requirements on the treatment of contingent rents relating to operating leases.

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 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 by replacing 'direct costs' with 'transaction costs (as defined in IAS 39)' in sub-paragraph 14 (a)(i).

We note that the appendix to IAS 18 also uses the term 'direct costs' in sub-paragraph 14 (a)(ii) and, therefore, it may be appropriate to amend this as well.

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?

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 amend IAS 19 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, as it reduces ambiguity over the issue.

We agree with the proposal to 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', as it is superfluous when there is a similar statement in IAS 1 which applies to all IFRSs, including IAS 19.

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 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, as it eliminates double counting.

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 note that this proposal is inconsistent with the current liability classification criteria in paragraph 69 of IAS 1 because the proposal does not include the criterion: 'the entity does not have an unconditional right to defer settlement of the liability for at least twelve months'. We recommend that this inconsistency be resolved by either further amending the relevant definitions in IAS 19 or amending the current liability classification criteria in paragraph 69 of IAS 1.

Question 17

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

We agree with the proposal to remove the reference in IAS 19 to recognising contingent liabilities, as it is inconsistent with IAS 37.

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 to conform terminology used by IAS 20 to the equivalent defined or more widely used terms in IFRSs, to improve consistency.

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 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, to improve consistency between these two Standards.

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 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, to improve consistency.

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 continue 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 to require investments in subsidiaries that are accounted for in accordance with IAS 39 in the parent's separate financial statements to continue 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), to address the present inconsistency between IFRS 5 and IAS 27.

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 changes in fair value recognised in profit or loss? If not, why?

We 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 changes in fair value recognised in profit or loss, to improve consistency between the relevant requirements.

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 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, as it reduces ambiguity over the issue.

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 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 in IFRSs, to improve consistency.

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 interest 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 proposal to clarify the disclosures required of a venturer in a jointly controlled entity that accounts for its interest in the jointly controlled entity at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss, to improve consistency.

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 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. We note that the present drafting of paragraph 11 of IAS 34 is unclear on this issue.

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 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 to improve consistency.

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?

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 agree that *services received for future advertising and promotional activities* should not be recognised as an asset because the economic benefits that might flow to the entity as a result of the services, which enhance or create a brand or customer relationship, are the same as those that result from an internally generated brand or a customer relationship. This proposal is consistent with IAS 38 prohibition on the recognition of internally generated brands and customer relationships. Hence, we agree with the proposals on this issue in respect of services received.

We also agree that if an entity pays for *advertising goods or services in advance* and the other party has not yet provided those goods or services, the entity has a different asset–the right to receive those goods and services. Consequently, we agree with the amendments to clarify this issue.

However, we do not agree with the proposals relating with the supply of advertising and promotional *goods* and instead concur with the alternative view–the expenditure on the supply of goods relates to a *tangible* rather than an *intangible* item. IAS 38 sets out the accounting treatment for intangible assets (and, in some instances, IAS 38 is not consistent with the accounting treatment prescribed by other Standards for tangible assets). Consequently, IAS 38 should not prescribe whether goods that may be used for advertising should be recognised as assets. IAS 38 should only determine whether the potential benefits that arise from advertising should be recognised as an asset.

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 to remove the last sentence of paragraph 98 of IAS 38 regarding the amortisation method used for intangible assets, to clarify when the unit of production method of amortisation can be applied.

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?

As discussed in our covering letter, we do not believe that amendments to the scopes of standards, such as this proposal, should be included in the annual improvement process because this type of amendment may have considerable impact which is not sufficiently highlighted by including it with other amendments as part of the annual improvement process.

We do not agree with this proposal as the amendment could have wider consequences, by scoping in contracts into IAS 39 that were not in the scope of either IAS 39 or IFRS 4 (eg service contracts with embedded performance clauses that are linked to EBITDA and/or revenue hurdles). We understand that some rely on the current exclusion in IAS 39 relating to contracts linked to non-financial variables that are specific to a party to the contract for determining the measurement of some contracts not within the scope of IFRS 4.

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?

Question 31(b)

Do you agree with the 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 agree with the proposal to amend IAS 39 to clarify the definitions of a financial instrument classified as held for trading.

We agree with the 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.

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 to amend paragraph 73 of IAS 39 to remove the references to segments and segment reporting, to remove the apparent conflict between IAS 39 and IAS 8.

Question 33

Do you agree with the proposal to amend paragraph AG8 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 AG8? If not, why?

We agree with the proposal to amend paragraph AG8 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 AG8, to remove the present inconsistency in the guidance in IAS 39 on this issue.

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 AG33(a), are closely related to the host debt contract? If not, why?

We 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 AG33(a), are closely related to the host debt contract, to resolve this inconsistency.

Question 35

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?

As discussed in our covering letter, we do not believe that amendments to the scopes of standards, such as this proposal, should be included in the annual improvement process because this type of amendment may have considerable impact which is not sufficiently highlighted by including it with a large number of other amendments.

We agree that it is appropriate for entities to be given the option to use the fair value model for property under construction, or development for future use, as an investment property. We note that there have been valid concerns in the past on the reliability of determining the fair value for this type of investment property. Advances in valuation methodology can result in reliable valuations of property under construction or development for future use. However, we believe that entities should be permitted to measure property under construction or development at either cost or fair value, even when the entity uses the fair value model for its other investment property. First, it is more expensive to measure at fair value investment property under construction or development for future use compared to other investment property. Second, the current drafting of the proposal raises a significant transitional issue on its adoption for some entities (discussed in the paragraphs below). Third, this is consistent with paragraph 32A of IAS 40 which permits entities to use the fair value model for investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets and a different accounting policy to all other investment property.

A transitional issue arises for an entity which uses the fair value model for its investment property under IAS 40 and the cost model for property under construction or development for future use as an investment property under IAS 16. We note that IAS 40 requires the same accounting policy (ie fair value or cost model) to apply to all of its investment property, excluding the exceptions noted in paragraphs 32A and 34. However, in IAS 16, the fair value or cost model can be applied on a class by class basis of property, plant and equipment, rather than to all property plant and equipment. Paragraph 31 of IAS 40 provides guidance that a change in accounting policy is only permitted if the change will result in a more appropriate presentation and that it is highly unlikely that a change from the fair value model to the cost model will result in a more appropriate presentation. Therefore, if an entity uses the fair value model for its investment property under IAS 40 and the cost model for property under construction or development for future use under IAS 16, the application of this proposal and paragraph 31 of IAS 40 will result in all investment property (including property under construction or development for future use) being accounted for under the fair value model under IAS 40. However, the entity's original accounting policy choices were made on the basis that property under construction or development would be within the scope of IAS 16. The entity may have made a different accounting policy choice under IAS 40 if it had been aware that the measurement model selected would also be applied to property under construction or development.

While we agree that measuring investment property at fair value provides information that is relevant, we do not agree that the entities in the examples discussed above should be required to use the fair value model for all investment property, inadvertedly as a result of this proposal when fair value is only an option in IAS 40. As a minimum, we recommend that there be a transitional provision to address this issue. However, as noted above, we believe that all entities should be permitted to choose whether to measure investment property under construction or development at cost or fair value, even if their other investment property is measured at fair value. That would resolve both the transitional issue and our other concerns outlined above.

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 to conform terminology used in paragraph 31 of IAS 40 to the terminology used in IAS 8, to improve consistency between these two Standards.

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 proposal to clarify the accounting for investment property held under a lease by amending paragraph 50(d) of IAS 40, to reduce ambiguity on this issue.

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 proposal to replace the terms 'point-of-sale costs' and 'estimated point-of-sale costs' in IAS 41 with 'costs to sell'. We note that there has been some confusion on the drafting of the requirements in IAS 41 on 'point-of-sale costs'.

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 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. We note that certain valuers in the agricultural sector use post-tax cash flows and discount rates to determine the fair value of agricultural assets. The proposed amendments will allow these valuations to determine the fair value of agricultural assets under IAS 41 when it is consistent with market assumptions.

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 to remove the exclusion of 'additional biological transformation' from paragraph 21 of IAS 41.

We note the proposal to include the term 'harvest' in the definition of 'biological transformation' without explanation. We recommend, for clarity, an explanation is included in the Standard's Basis for Conclusions. It appears to us that this proposal is because the guidance in IAS 41 applicable to 'biological transformation' is also applicable to 'harvest'.

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 to the examples in paragraph 4 of IAS 41. We note that we raised this issue, which was raised with us by a constituent, in our letter to you dated 28 January 2005.