LONDON SOCIETY OF CHARTERED ACCOUNTANTS

10 January 2008

First Annual Improvements Project
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Sirs

Exposure Draft of Proposed Improvements to International Financial Reporting Standards

With a membership of in excess of 30,000, the London Society of Chartered Accountants (LSCA) is the largest of the regional bodies which form the Institute of Chartered Accountants in England & Wales (ICAEW). London members, like those of the Institute as a whole, work in practice or in business. The London Society operates a wide range of specialist committees including Technical (accounting and auditing), Tax, Regulation and Ethics Review and Financial Services and Insolvency, which scrutinise and make representations to bodies such as yourselves.

Our responses to the specific questions raised in the Discussion Paper are set out below.

We are unconvinced of the merits of the improvements process. While it is admirable that the IASB wishes to improve the wording of standards and to remove inconsistencies, given the size and complexity of the standards we doubt whether the body of standards can ever be perfected in this way. In some instances, the costs to the IASB and its constituency in developing, reviewing, endorsing, translating and assessing the changes for implementation may well outweigh the perceived benefit of improvement. In other instances, we are concerned that major and potentially wide ranging changes could be lost within the volume of minor proposals. We believe at least two of the proposed changes are major and could have unforeseen effects; i.e. the proposed changes in the definition of derivatives and of investment property. While the volume of improvements should decrease over time, we would urge the Board to think carefully whether future changes are really necessary and whether more important changes are given sufficient attention by the process.

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

We agree.

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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?

We agree with the proposal, although we believe it should also address the accounting for the retained investment (which may be an associate, joint venture or financial instrument held under IAS 39) and the calculation of the attributable cost as the starting point for equity accounting, proportionate consolidation or fair value going forward.

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?

We agree but believe the heading preceding IG13 also needs amending and should omit the words "Total interest income and".

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 not?

We do not believe this amendment will be workable. If the financial statements claimed to comply with IASB IFRS (and do not) why is the preparer more likely to make the statement required by 16A than remedy the shortcoming?

If the preparer is not in a jurisdiction that applies IASB IFRS then the statement is likely to be interpreted as relating to the "local" IFRS applicable to the financial statement and will not therefore flag differences from IASB IFRS! Therefore we think that the issue is a matter of enforcement and local listing rules and not one that the IASB can successfully resolve.

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 of current?

We agree. However we believe the words "cash or other assets" may need to be expanded to include, for example, the rendering of services at less than fair value and to make clear that it is not necessary for the "asset" to have been recorded in the balance sheet (for example a liability might be settled by the transfer of an internally generated intangible that did not meet the capitalisation criteria).

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?

We agree that the potential implication that a derivative **classified** as held for trading is automatically current should be addressed. We presume you are seeking to address the situation where a derivative is **not** held for trading, although it is classified as such for IAS 39, but is part of an economic hedge.

However if a financial asset or liability is held primarily for the purpose of trading then it should continue to be classified as current due to the definitions in IAS 1 66 and 69. This needs to be made clear. Financial assets and financial liabilities that are classified as held-for trading under IAS 39 as they "were acquired or incurred principally for the purpose of selling or repurchasing it in the near term" or "part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking" would seem to be appropriately classified as current based on the definitions in IAS 1 66 and 69.

We note that income statement classification is not specifically addressed. Is the implication of the proposal that fair value movements in a derivative that is part of an economic hedge need not be included in trading income? If this is the case, then the fair value movements could be included in the same income statement line as the item which is being economically hedged without the need for hedge accounting documentation, etc as required by IAS 39.

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.

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.

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 question whether recoverable amount needs to be defined in IAS 16 since the term is only used in IAS 16 (63) to refer the reader to IAS 36 or to define an impairment loss, the latter being defined in exactly the same words as in IAS 36!

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 believe this proposal has deeper implication that should be considered.

It is unclear why the amendment is restricted to items of property, plant and equipment (PPE) that are held for rental and not to other PPE that are routinely sold in the course of ordinary activities.

We agree that a company that hires out cars to others and sells the cars, after say 3 years, should be required to transfer the cars to inventories once they are held for sale. However a company that operates a taxi service and sells off the vehicles after 3 years could equally be argued to be trading in used cars and should also be required to transfer the cars to inventories once they are held for sale. The proposed amendment would not permit that as the cars were not held for rental to others.

Equally it might be argued that a similar approach should apply to investment properties as they are held for rental and capital appreciation (i.e. subsequent disposal).

We also query the proposal that the cost of acquiring such assets should be included in full as an operating cash outflow. To the extent that the asset will be recovered through rental rather than sale the initial outflow seems to be an investment, just as it would be for an item of PPE that is used to manufacture goods.

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?

The proposals do not specify what the perceived inconsistency is and therefore it is not possible to say whether the change eliminates it.

Question 12 – Do you agree with the proposal that contingent rent relating to an operating lease should be recognised as incurred?

Yes, but it is unclear whether this is consistent with the proposed change to the definition of a derivative and the requirements in IAS 39 to account for embedded derivatives separately. For example a term in a lease linking rents to a tenants revenue may now be an embedded derivative, as derivatives will includes such non-financial variables specific to a party to the contract.

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?

Yes. We would also query whether similar changes are needed to IAS 18 appendix 14(a)(ii) and (a)(iii)

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 that IAS 19 at present is ambiguous regarding negative past service costs and curtailments. However, the proposed amendments do not recognise that situations arise where an amendment to the plan can lead to improved benefits but nevertheless reduce the obligation. This could, for example, arise where the change allows a larger lump sum to be claimed on retirement. Hence, we suggest that the final sentence of IAS 19 (97) should be amended to state that negative past service cost arises when an entity changes the benefits available to employees in such a way that it reduces its benefit obligation attributable to past service under an existing defined benefit plan. Similarly, the definition of past service cost in IAS 19 (7) would need to be amended.

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.

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.

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.

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

Yes.

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 not?

Yes. However paragraphs 13 to 16 seem redundant as part of the text of the standard. They either explain the difference between the capital approach (which is now not referred to in paragraph 12) and the income approach or, in the case of paragraph 16, largely repeat paragraph 12 in a different way. Perhaps they would be better placed in the basis of conclusions!

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.

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

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

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 and loss?

Yes, but we are unsure why the proposed residual disclosure requirement of IAS 28 is relevant?

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 associate should be reversed?

We agree.

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?

Yes. Although it does beg the question at what point do financial statements cease to be on a historic cost basis if certain elements are measured at fair value on a mandatory or optional basis.

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 the profit and loss account

Yes, but see also our answer to Question 22.

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.

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?

We agree.

Question 28(a) - Do you agree that IAS 38 should emphasis 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?
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?

Yes. But as per the dissenting opinion we were concerned that goods received (such as a catalogue which would be used through out a "season") should be classified as tangible rather than intangible.

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.

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?

No. It is not a minor amendment that should be dealt with as part of the annual Improvements Project.

As noted in our response to question 12 above this is a major amendment which could have unforeseen consequences that have not been fully considered or discussed in the paper.

Preparers may need to spend more time on examining contracts in order to identify separate embedded derivatives which could lead to increased costs but not necessarily an improvement in financial reporting.

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.

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?

We agree.

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.

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

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

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?

Yes, provided it is considered possible to establish a reliable fair value. We note that B16 to B20 of the existing IAS 40 notes that such a reliable fair value could not be established.

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.

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.

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?

It is not clear that these are the same terms. Point-of sale costs implicitly includes commission to brokers and dealers, levies and transfer taxes which are not referred to in the Basis of Conclusion for the proposed amendment.

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?

Yes. But there should also be a requirement to disclose whether pre or post tax rates and cash flows have been used.
Is it envisaged that entities should be able to use either pre tax rate and cash flow or a post tax rate for different biological assets?

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.

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

We agree.

We trust you find our comments helpful in the consultation process and please do not hesitate to contact our Chairman, Steven Brice on +44 (0) 207 220 3231 if you wish to discuss any of our comments further.

Yours sincerely

S. A. Brice

Steven Brice
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