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Accounting Standards Committee of Germany ®
Der Standardisierungsrat

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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
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Berlin, 4 January 2008

Dear David,

Exposure Draft of Proposed Improvements to International Financial Reporting Standards

We appreciate the opportunity to respond to the International Accounting Standards Board's Exposure Draft of Proposed Improvements to International Financial Reporting Standards under its first Annual Improvements project. This letter represents the view of the German Accounting Standards Board.

The GASB supports the objective of the IASB's new Annual Improvements Process project to streamline the standard setting process. We therefore support this project which enables the IASB to deal with minor amendments to existing standards on a regular basis rather than having no regular process for dealing with those amendments.

We think, however, that it is very important to ensure using the Annual Improvements Process project only for the right kind of amendments. When the IASB established the project in July 2006 it was announced that the project deals with 'non-urgent, minor amendments'. In addition, the IASB declared that the objective of such minor amendments primarily is to 'resolve inconsistencies between standards or clarify unclear wording'. A clear definition of 'non urgent, minor amendments' has not been given. Hence, we understand that this has to be assessed on a case by case basis.

In our understanding two main aspects should be considered when determining whether a proposal is a minor amendment or not. The first aspect is related to the standard itself: that means the extent and the content of the proposed amendment should be assessed. While it is quite clear how to determine a minor amendment regarding its formal extent, i.e. only some words or a few paragraphs, we are of the opinion that matters of content must be considered more thoroughly. From our point of view, a minor amendment should not introduce material new requirements or material new disclosures or, generally speaking, new principles to an existing standard.

The second aspect which has to be assessed in order to determine a minor amendment is related to its impacts – certainly, often closely related to the first, above mentioned aspect. We think that amendments triggering material consequences in accounting practice, e.g. amendments with measurement consequences, are, from our point of view, not minor amendments and should be discussed in a broader context than possible within the Annual Improvements Process.

With regard to forthcoming annual improvements to IFRSs we encourage the IASB to reconsider and concretize the criteria for including an amendment in the Annual Improvements Process. The above-mentioned aspects should be considered in this context to ensure that, in the future, only the right kind of amendments will be addressed as part of the Annual Improvements Process.

In the light of these assumptions we evaluated the 41 proposed amendments of the first Annual Improvements Process project Exposure Draft. For detailed comments on the questions raised in the Exposure Draft we refer to the second part of this comment letter. The main aspects of the second part of the comment letter are summarised below:

We basically agree with most of the proposed amendments contained in the Exposure Draft. In some cases, we provide additional comments.

However, in a few cases we disagree with the proposed amendment to the standard. In particular, we take the view that the following issues should not be addressed as part of the Annual Improvements Process, as they do not represent minor amendments because of their practical implications or because of their significance that demands discussing them in a broader context:

- Issue 10: IAS 16 – Sale of assets held for rental
- Issue 11: IAS 17 – Classification of leases of land and buildings
- Issue 30: IAS 39 – Definition of a derivative
- Issue 35: IAS 40 – Investment property under construction
- Issue 40: IAS 41 – Additional biological transformation.

Furthermore, we do not agree with the following amendments for reasons that are also set out in the second part of this comment letter:

- Issue 3: IFRS 7 – Presentation of net finance costs
- Issue 16: IAS 19 – Replacement of the term 'fall due'.

On top of this, we would like to note that we do not support the requirements regarding early application. We take the view that the amendments of the current Exposure Draft of Proposed Improvements to IFRSs should be early applicable on a case by case basis. We understand that there might be amendments that are connected with each other. In such cases we would agree with the restriction of a joint early application of these amendments provided that reasons were given why the joint early application of these amendments is necessary. If, however, the amendments are complete stand-alone amendments and the only common feature with the other 2007 improvements to IFRSs is being included in **one** joint Exposure Draft we see no reason why these amendments should not be early applied individually, i.e. on a case by case basis. Similarly, we take the view that retrospective application of proposed improvements to IFRSs should be considered on a case by case basis because there might be amendments where retrospective application would be very burdensome for preparers or the costs of retrospective application do not outweigh the benefits. 'Issue 30 – Definition of a derivative' represents, in our view, an example where an exception to retrospective application is reasonable if not warranted.

If you would like to discuss any aspects of this comment letter in more detail, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr

Liesel Knorr
President

Proposed amendments to International Financial Reporting Standards 1 *First-time Adoption of International Financial Reporting Standards*

Restructuring of IFRS 1

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

We agree with the proposed restructuring of IFRS 1 because it increases the clarity and, hence, it improves the readability of this standard.

However, we would like to draw your attention to the reference given in paragraph 30 of the restructured IFRS 1. The guidance in paragraph 30 deals with the use of fair value as deemed cost regarding items of property, plant and equipment, an investment property or an intangible asset. In addition, it refers to the guidance of paragraphs D2 and D4 of Appendix D. However, paragraphs D2 and D4 of Appendix D deal with 'Share-based payment transactions' and 'Insurance contracts'. We think the correct reference has to be D5 and D7 of Appendix D, which contain the relevant elections regarding the use of fair value as deemed cost.

Proposed amendments to International Financial Reporting Standards 5 *Non-current Assets Held for Sale and Discontinued Operations*

Plan to sell the controlling interest in a subsidiary

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 proposed amendment to insert paragraph 8A to IFRS 5 because the IASB's rationale for this amendment, as given in the Basis for Conclusions, is convincing.

Proposed amendments to International Financial Reporting Standards 7 *Financial Instruments: Disclosures*

Presentation of finance costs

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 do not agree with the proposed amendment to paragraph IG13 of IFRS 7. We understand the potential conflict between IAS 1 and IFRS 7, but we deem the result that could be derived from IG13 of IFRS 7 the preferable solution. We think that presenting net finance costs in the statement of comprehensive income is acceptable, provided finance costs and finance revenue [i.e. the gross numbers] are disclosed in the notes to the financial statements.

Consequently, we would prefer amending the requirements of IAS 1 instead of paragraph IG13 of IFRS 7.

Proposed amendments to International Accounting Standard 1 *Presentation of Financial Statements*

Statement of compliance with IFRSs

***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 partly agree with these proposed new disclosure requirements for entities that refer to IFRSs in describing the basis on which their financial statements are prepared but are not able to make an explicit and unreserved statement of compliance with IFRSs.

We support the requirement to state the differences between the bases on which the financial statements are prepared and full IFRSs. Accordingly, we also support the requirement to describe these differences. However, we think it is crucial to point out that this requirement is subject to the general principle of materiality as given in the IASB Framework [par. 29 et seq.]. The Basis for Conclusions [BC3] of this proposed amendment to IAS 1 states '..., it [an entity] should disclose **each instance** when IFRSs are applicable to its financial statements but are not complied with.' [emphasis added]. From our point of view this does not reflect the materiality aspect and could mislead preparers with regard to the extent of the differences and the manner of the description required. We, therefore, think it would be very helpful to modify this issue in the Basis for Conclusions in a way that makes clear that the description of differences is only required for material differences, which are the reason for being unable to make an unreserved statement of compliance with IFRSs. In addition, this aspect should also be reflected in the Standard itself, i.e. in paragraph 16A(a). Therefore, we suggest improving this paragraph's wording.

However, we do not support the requirement to describe the impacts of the differences to the reported financial position and performance as proposed in IAS 1.16A(b). We strongly believe that there could be circumstances where this requirement would be burdensome to preparers and the costs of making these disclosures would outweigh the benefits to users. IFRS 3 *Business Combinations* (revised 2008) could potentially be an example. When not applying the complete Standard for whatever reasons, an entity will be forced to keep a form of an additional accounting that simulates the application of the revised Standard for each relevant item in the financial statements. Even if the Basis for Conclusions states that no quantification is required such situations would cause enormous efforts to the reporting entity to fulfil this disclosure requirement. We therefore suggest adding to the requirement of paragraph 16A(b) of IAS 1 the phrase 'if not impracticable to do so'.

Current/non-current classification of convertible instrument

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?*

In principle we agree with the proposed amendment to IAS 1.69(d) because non-current classification of a liability component of a long-term convertible instrument that is convertible at any time provides relevant information to users. It is therefore reasonable to exclude from IAS 1.69(d) the 'conversion of an obligation to equity'. However, the amendment, as proposed now, excludes all other forms of settlement except those conducted by the transfer of cash or other assets. The reason given is that information about liquidity and solvency is useful to financial statements' users: Every form of settlement that does not involve the transfer of cash or other assets does not affect the entities' liquidity and solvency position and should, therefore, be classified as non-current, i.e. it had been excluded from the guidance of what is current in IAS 1.69(d). We agree with this principle.

Nevertheless, we wonder whether the proposed amendment sufficiently reflects all aspects of this principle. For example, the settlement of a long-term obligation by replacement with a short-term obligation [maturity within 12 months] causes the outflow of cash within a very short period. From our point of view there is hardly any difference in substance between this transaction and a 'cash transaction', i.e. between the settlement of a long-term obligation by replacement with a short-term obligation and the settlement by the immediate transfer of cash. Therefore, it seems to be appropriate to classify an instrument that includes the right to be replaced with a short-term obligation at any time as current.

The example demonstrates that there are other forms of settlement that affect the entity's liquidity and solvency position. We therefore encourage you to reconsider the amendment with regard to further forms of settlement that should be included by an amendment of IAS 1.69(d).

Current/non-current classification of derivatives

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 proposal to amend the examples in paragraphs 68 and 71 of IAS 1 because it removes the perceived inconsistency in IAS 1 regarding the current and non-current classification and therewith clarifies the current/non-current presentation of financial instruments classified as held for trading in accordance with IAS 39.

However, the examples in IAS 1.68 and .71 demonstrate that regular classification of derivatives as held for trading [except for derivatives that are financial guarantee contracts or are designated and effective hedging instruments] in accordance with IAS 39.9(a)(iii), irrespective of the actual purpose of holding these derivatives, does not always provide meaningful results, i.e. it implies regularly a presentation of all derivatives as 'current' which would not reflect the underlying economic reality and substance. Therefore, we would encourage a sound review of the classification of derivatives in accordance with IAS 39.9(a)(iii) in addition to the proposed amendment to the examples in IAS 1.68 and .71.

Proposed amendment to International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Status of implementation guidance

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 to IAS 8 because it represents a meaningful clarification.

Proposed amendments to International Accounting Standard 10 *Events after the Reporting Period*

Dividends declared after the end of 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 with the proposed amendment to paragraph 13 of IAS 10 because it represents a meaningful clarification.

Proposed amendments to International Accounting Standard 16 *Property, Plant and Equipment*

Recoverable amount

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 because it enhances the consistency with the definition of the recoverable amount in IFRS 5/IAS 36 and, therefore, prevents misunderstandings regarding potential different meanings of this term in IAS 16 and IFRS 5/IAS 36.

Sale of assets held for rental

Question 10 *– Do you agree with the proposal to amend paragraph 68 of IAS 16 and paragraph 14 of IAS 7? If not, why?*

As result of our deliberations we do not agree with the proposal to amend IAS 16 to require an entity holding assets for rental and for sale in its ordinary course of business to transfer such assets to inventories when they cease to be rented and to recognise the proceeds from the sale of such asset as revenue. Accordingly, we do not support the consequential amendment to IAS 7.

We understand and basically accept the IASB's rationale for this amendment, that is, the presentation of gross selling revenue would better reflect the ordinary activities of an entity that rents assets and subsequently sells the same assets on a regular basis. However, this amendment seems to introduce a rule to IAS 16 that has been especially tailored to the business of specific industries [e.g. car rental].

Thus, the proposed amendment does not seem to be principle-based. From our point of view there are other industries that involve using and subsequently selling the same assets in a similar way. A cab business is an example for this view: the asset, i.e. the car, is used by the entity to generate revenue in the course of its ordinary activities, and it is sold on a regular basis when it ceases to be used. The period of usage of the car in the intended manner [transportation purposes] in the cab business is often not significantly longer than the period for renting a car to others in the car rental business. It could, therefore, be assumed that proceeds received from the sale of a former cab are similar to the proceeds received from the sale of an asset held for rental with regard to determining future cash flows. Hence, arguments could be found for treating these proceeds [cab business] in the same way as proceeds from selling assets that had been held for rental before. On the other hand, this example demonstrates the rule-based characteristic of the proposed amendment and thus the lack of an underlying principle.

We would, therefore, appreciate a sound review of the proposed amendment with special view of the above-mentioned aspects. As a side note, we believe that such amendment is not a minor amendment because it affects a basic aspect of IAS 16 and should therefore not be addressed as part of the Annual Improvements project.

Finally, we would like to note that the interaction between the proposed requirement of IAS 16 and the requirements of IFRS 5 should be considered. If the requirements of IFRS 5 are applicable to an asset held for sale that was previously held for rental it will be necessary to clarify the priority of the two requirements.

Proposed amendments to International Accounting Standard 17 *Leases*

Classification of leases of land and buildings

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 do not agree with the proposed amendment to delete the specific guidance for leases of land in paragraphs 14 and 15 of IAS 17 for the following reasons:

Due to its potential implications, we do not deem the proposal to be a minor amendment. This amendment does not simply represent an improvement of IAS 17 but rather a material amendment. The fact that the IASB already considered the deletion of this specific guidance in connection with the Improvements project in 2003 [see IAS 17.BC8 (revised 2003)] supports this position. At that time the IASB rejected deleting the specific guidance as it would conflict with the risks and rewards approach in IAS 17. The Basis for Conclusions states: 'Indeed, land normally has an indefinite economic life and hence there are significant risks and rewards associated with the land at the end of the lease term, which do not pass to the lessee. ...' If the IASB is now convinced of the incorrectness of this statement we take the view that the current decision to delete the specific guidance for classification of land has to be explained and justified more thoroughly than currently done in the Basis for Conclusions to this annual improvement. Including details, for example as given in the Observer Note of the relevant IASB meeting [see below], could be helpful to understand the IASB's motive for the current proposal. However, with regard to the active IASB project to revise the leases standard, i.e. IAS 17, we are of the opinion that such an amendment would be better addressed as part of this basic project, rather than as part of the Annual Improvements project.

Additionally, we would like to note that we basically agree with the IASB staff's approach set out in paragraph 7 of Observer Note 5D, July 2007: the economic position of a lessee in a very long-term lease of land and buildings is very similar to the position of a purchaser of the land and buildings. It would, therefore, be reasonable to classify the lease of land in such circumstances as finance lease rather than as operating lease. Applying the general lease classification guidance in paragraphs 8 to 12 of IAS 17 would, therefore, be appropriate.

Nevertheless, we disagree with the proposed amendment – besides the above-mentioned formal reasons – for technical reasons as well. This is because we believe that in practice it might be very difficult to determine how long a lease term would need to be to indicate a transfer of risks and rewards [e.g. 100, 300 or 600 years?]. We, therefore, think that the simple deletion of the specific guidance in paragraphs 14 and 15 of IAS 17 would not necessarily improve the accounting for leases of land and buildings and, furthermore, might create inconsistent application in practice.

Contingent rent

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 proposed amendment to align the requirements for accounting for contingent rent relating to an operating lease to the existing requirement for accounting for contingent rent relating to finance leases because this amendment removes a perceived inconsistency in IAS 17. Furthermore, we support this amendment because from our point of view it represents the appropriate accounting method for contingent rent. Our reasoning for this takes into account the uncertainty that is associated with contingent rent: Amortising contingent rent over the lease term on a straight line basis would mean estimating contingent rent at the beginning of the lease term. Any deviation from this estimation of contingent rent would have to be adjusted in later periods. Because of the nature of contingent rent, i.e. its uncertainty, quite often a need for adjustment could be assumed. We do not believe that such accounting would provide more relevant information to users than the proposed accounting treatment. Thus, we support the proposal because it represents an appropriate amendment for more than only practical reasons.

To sum up, we agree with the IASB's intention that contingent rent should be recognised in profit or loss when the agreed condition [e.g. a particular percentage of sales or a particular amount of use] is met, rather than estimating it at the inception of the lease term and amortising on a straight line basis. However, we are not sure that the proposed wording reflects this intention properly. Especially, the term 'in the periods' [IAS 17.33, .39, .50] could cause confusion because it implies contingent rent to be recognised in more than one period, and thus potentially amortisation on a straight-line basis. We therefore suggest clarifying the wording. With regard to the proposed wording please also refer to our comments on question 18, Consistency of terminology with other IFRSs, section two.

Furthermore, we noticed a slight difference in the wording in IAS 17.25 regarding finance leases and the proposed wording in IAS 17.33 regarding operating leases. IAS 17.25 states 'Contingent rent**s** shall **be charged** as expense**s** ...' [emphasis added] while the proposed IAS 17.33 states 'Contingent rent shall **be recognised** as an expense...' [emphasis added]. To prevent potential confusion with regard to different meanings we suggest aligning the wording.

Proposed amendment to the guidance on International Accounting Standard 18 *Revenue*

Costs of originating a loan

***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 IAS 18 because it represents a clarification and, hence, increases consistency of the related standards.

Proposed amendments to International Accounting Standard 19 *Employee Benefits*

Curtailments and negative past service costs

***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 amendment to IAS 19 because it represents a meaningful clarification.

***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 also agree with the proposal to delete the above mentioned sentence in paragraph 111 of IAS 19 for the reasons given in the Basis for Conclusions [BC10], i.e. the materiality notion is one of the underlying assumptions set out in the IASB Framework and is, therefore, relevant to each accounting issue, which means it does not need to be repeated in IAS 19.

However, we think that the replacement of the term 'material' by 'significant' should be mentioned in the Basis for Conclusions and the reasoning for this amendment – irrespectively how small it seems to be – should be stated.

Plan administration costs

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 amendment to the definition of return on plan assets in paragraph 7 of IAS 19 because it aligns the definition with the guidance in paragraph 107 of IAS 19, and removes an inconsistency in IAS 19.

Replacement of term 'fall due'

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 do not agree with the proposal to replace the term 'fall due' with the notion of employee entitlement in the definitions of short-term employee benefits and other long-term employee benefits.

We see the conflict between the definitions of short-term employee benefits and other long-term employee benefits in IAS 19.7 on the one hand and the example for short-term employee benefits in IAS 19.8(b) on the other hand. Furthermore, we understand that this conflict has to be removed. However, we are of the opinion that a better way of removing this conflict would be to amend the example in IAS 19.8 by adapting it to the current definitions for short-term employee benefits and other long-term employee benefits in IAS 19.7. We prefer our way of amendment, versus replacing the term 'fall due wholly' with 'the employee becomes entitled' in the definitions, because the term 'fall due wholly' is clear, precise and easily understandable. In contrast, the new proposed term 'the employee becomes entitled' could pose new questions depending on the applying jurisdiction. In particular, it is not clear whether the new term indicates a different dividing line between short-term and other long-term employee benefits than the term 'fall due wholly' does.

If replacement of the term 'fall due wholly' is intended to introduce a new dividing line, we take the view that this amendment is not a minor change as it results in measurement consequences. In certain cases the measurement impact could be material. Therefore, such an amendment should not be addressed as part of the Annual Improvements project.

Guidance on contingent liabilities

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

We agree with the proposed amendment to IAS 19 because it removes a misleading reference in IAS 19 and a perceived inconsistency between IAS 19 and IAS 37.

Proposed amendments to International Accounting Standard 20 *Accounting for Government Grants and Disclosure of Government Assistance*

Consistency of terminology with other IFRSs

***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 strongly support the IASB's efforts to improve consistency of IFRSs by applying consistent terms for equivalent issues and, hence, we basically agree with the proposed amendment to conform terminology used by IAS 20 to the equivalent defined or more widely used terms. However, we have some additional remarks.

Regarding the replacement of the terms 'recognised as income' and 'recognised as expense' by the term 'recognised in profit or loss' we noticed that the terms 'recognised as income' and 'recognised as expense' are used in several other IFRSs as well. We, therefore, believe that other standards should also be reviewed with respect to undefined or unusual terms. In particular, it should be ensured that these terms are not introduced to other standards. An example is the proposed amendment to IAS 17 regarding contingent rent. We basically support this amendment [see pages 9 et seq. of this comment letter], but we do not support the wording of the proposal because, inter alia, it introduces the terms 'recognised as income' and 'recognised as expense' to IAS 17 whereas they are to be replaced in IAS 20. We do not see this as reasonable and suggest reconsidering the wording of the proposed amendment to IAS 17.

In addition, we do not fully understand why the term 'credited directly to shareholders interests' is replaced on the one hand by 'recognised outside profit or loss' in paragraph 13 of IAS 20 and on the other hand by 'recognised directly in equity' in paragraphs 14(a) and 15(a) of IAS 20. We, therefore, suggest aligning the term in paragraphs 13, 14(a) and 15(a).

Government loans with a below-market rate of interest

***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 proposal to amend IAS 20 regarding the benefit of a loan received from a government with a below-market rate of interest because it represents a meaningful clarification and provides more relevant information to users.

Proposed amendment to International Accounting Standard 23 *Borrowing Costs*

Components of 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 Financial Instruments: Recognition and Measurement relating to effective interest rate when describing the components of borrowing costs? If not, why?*

We basically support the IASB's efforts to increase consistency within IFRSs and would, hence, support the proposed amendment to IAS 23.6 unless the components of borrowing costs are changed.

However, we are concerned about the deletion of 'ancillary costs' in IAS 23.6(c). We are not sure whether or not this amendment does mean a change in substance. We, therefore, would appreciate a clarification of this matter.

We see two views on how to interpret the deletion of 'ancillary costs':

On the one hand, the proposal could be understood as a form of an editorial amendment to improve consistency between IFRSs without changing the technical content of IAS 23, i.e. the components of borrowing costs. This is because IAS 23.6 only states examples for components of borrowing costs and the list is, therefore, not conclusive. It is the general definition in IAS 23.5 and, in particular, the requirements in IAS 23.8 and .10 that are relevant for determining and capitalising borrowing costs. As a result certain fees, which we deem to be examples of ancillary costs, e.g. placement fees for arranging a loan, could still be capitalised as part of the cost of a qualifying asset, even if they are not an integral part of the effective interest rate according to IAS 39.

On the other hand, placement fees for arranging a loan do – as just mentioned above – not represent an integral part of the effective interest rate [see Appendix 14(c)(ii) of IAS 18], and could therefore also be considered as being excluded from capitalising as part of the cost of a qualifying asset under the IASB proposal to replace IAS 23.6(a)-(c) with reference to the guidance in IAS 39.

We, therefore, want to stress again that a clarification of this matter is needed, i.e. whether this amendment intends to introduce a change in technical content to IAS 23 or not. As regards the two alternative views set out above, we favour view one under which certain ancillary costs, e.g. placement fees for arranging a loan, would still be capitalised.

Proposed amendment to International Accounting Standard 27 *Consolidated and Separate Financial Statements* (as amended in 2007)

Measurement of subsidiary held for sale in separate financial statements

***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 proposed amendment to IAS 27 because it removes a perceived inconsistency in the guidance of IAS 27 and IFRS 5.

Proposed amendments to International Accounting Standard 28 *Investments in Associates*

Required disclosures when investments in associates are accounted for at fair value through profit or loss

***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 proposed amendment because it removes a perceived inconsistency in the disclosure requirements of IAS 28 and IFRS 7/IAS 32.

However, it is not clear why the specific disclosure requirement of paragraph 37(f) of IAS 28 has been retained. Therefore, the Basis for Conclusions should be completed by a convincing explanation of this matter. Without this explanation we disagree with this requirement, i.e. we would suggest deleting it as well.

Impairment of investment 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 with the proposed amendment to paragraph 33 of IAS 28 because it represents a meaningful clarification.

Proposed amendments to International Accounting Standard 29 *Financial Reporting in Hyperinflationary Economies*

Consistency of terminology with other IFRSs

***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 basically agree with the proposed amendment to update paragraph 6 of the Standard and to conform the terminology in IAS 29. However, we have one additional remark.

It relates to the first sentence of paragraph 6 in IAS 29. We suggest the following wording: '... of assets held or liabilities incurred.' instead of '...of assets or liabilities held.' because 'incurred' is the more widely used term in connection with liabilities.

Proposed amendment to International Accounting Standard 31 *Interests in Joint Ventures*

Required disclosures when interest in jointly controlled entities are accounted for at fair value through profit or loss

***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 proposed amendment because it removes a perceived inconsistency in the disclosure requirements in IAS 31 and IFRS 7/IAS 32.

However, it is not clear why the specific disclosure requirements of paragraphs 55 and 56 of IAS 31 have been retained. Therefore, the Basis for Conclusions should be completed by a convincing explanation of this matter. Without this explanation we disagree with this requirement, i.e. we would suggest deleting it as well.

Proposed amendment to International Accounting Standard 34 *Interim Financial Reporting*

Earnings per share disclosure in interim financial reports

***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 proposed amendment to paragraph 11 of IAS 34 as it represents a meaningful clarification.

Proposed amendments to International Accounting Standard 36 *Impairment of Assets*

Disclosure of estimates used to determine recoverable amount

***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 required for value in use when discounted cash flows are used to calculate fair value less costs to sell? If not, why?*

We basically agree with the proposal to align the disclosure requirements in paragraph 134(e) of IAS 36 with the disclosure requirements in paragraph 134(d) of IAS 36 to require an entity giving the same disclosures for fair value less costs to sell as for value in use when discounted cash flows are used to calculate fair value less costs to sell.

Notwithstanding our agreement with the proposed amendment we wonder what the reasons for different disclosure requirements were when IAS 36 originally was issued. The Standard seems to indicate that the assumption at that time was that fair value less costs to sell is normally calculated by reference to a price in a binding sale agreement or a market price, while value in use is regularly determined by cash flow projections. This is supported by the specific structure of the Standard which, on the one hand, contains in paragraphs 25 to 29 the requirements for measuring recoverable amount as fair value less costs to sell and, on the other hand, in paragraphs 30 to 57 contains the requirements for measuring recoverable amount as value in use, of which only the latter [referring to value in use] deal with matters of cash flow projections. Therefore, from our point of view it is not sufficient to align the disclosure requirements of IAS 36.134(e) with the disclosure requirements of IAS 36.134(d). Making IAS 36 consistent would additionally require restructuring IAS 36 to reflect that fair value less costs to sell can be measured by cash flow projections when no binding sale agreement and no market prices exist, and, moreover, to reflect that using cash flow projections for measuring fair value less costs to sell is subject to the same requirements as measuring value in use using cash flow projections.

Finally, we would like to note that, for reaching full consistency in this matter, we would appreciate aligning the disclosure requirements of IAS 36.130(f) with the requirements of IAS 36.130(g) in respect of determining recoverable amount by using cash flow projections.

Proposed amendments to International Accounting Standard 38 *Intangible Assets*

Advertising and promotional activities

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 proposed amendment to clarify what the term 'as incurred' means in connection with the recognition of expenses in terms of paragraph 69 of IAS 38 because it represents a meaningful clarification.

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 basically agree with this amendment regarding paragraph 70 of IAS 38 because it represents a meaningful clarification.

However, we think it should be made clear that recognition of a prepayment as an asset is not only permitted when payment for goods or services have been made in advance of the entity gaining access to those goods or receiving those services, but rather required. Paragraph 70 states: 'Paragraph 68 does not preclude an entity from recognising a prepayment as an asset when payment for goods has been made in advance of the entity gaining access to those goods. Similarly, paragraph 68 does not preclude ... recognising ... an asset ... when payment for services has been made in advance of ...' From our point of view the phrase 'does not preclude' is misleading in this context because it does not reflect this requirement and could, therefore, lead to confusion and potentially further divergence in practice.

Furthermore, it could be made even clearer than has been done that a prepayment shall be recognised by an entity only **until** that entity has access to the related goods or has received the related services. From our point of view the Basis for Conclusions of the proposed amendment [BC 4] is more precise and clearer in this aspect by using the term 'until' than paragraph 70 itself.

Unit of production method of amortisation

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 proposed amendment to remove the last sentence of paragraph 98 of IAS 38.

Proposed amendments to International Accounting Standard 39 *Financial Instruments: Recognition and Measurement*

Definition of a derivative

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 do not agree with the proposed amendment to remove from the definition of a derivative in IAS 39 the exclusion relating to contracts linked to non-financial variables that are specific to a party to the contract for the following reasons:

We are not of the opinion that this is a minor change that should be addressed as part of the Annual Improvements Process project. From our point of view amending the definition in the proposed manner could have a wider impact. The Basis for Conclusions [BC3] states that the amendment does not affect the scope of IAS 39, because insurance contracts are excluded by IAS 39.2(e). We agree with this argument. However, in respect of the new proposed definition, we are not sure whether all impacts to instruments within the scope of IAS 39 have been sufficiently considered. For example, as a result of the amended definition, each participation certificate with interest and principal payments indexed to an entity's revenue, EBIT or the like meets the definition of a derivative. We do not support this result, because it does not properly convey the substance of the instrument and, in addition, it may cause measurement consequences that we deem inappropriate in certain circumstances. Furthermore, we would like to note that the proposed amendment does not solve the real issue, being the question of what a financial variable and what a non-financial variable is. The proposed amendment thus seems to be a kind of halfway solution.

If the IASB decides to continue with the proposal to amend the definition of derivatives in IAS 39, we consider a consequential amendment to the definition of financial risk in IFRS 4 necessary. Notwithstanding the IASB's conclusions laid out in the Basis for Conclusions [BC 4] of the proposed amendment, we take the view that the list of variables in the definition of a derivative in IAS 39 should mirror the definition of financial risk in IFRS 4. This is because one typical characteristic of a derivative is that its value changes in response to the change in one or more of a certain variable, which is broadly understood as a description of financial risk. In addition, IFRS 4 defines financial risk in order to distinguish this kind of risk from insurance risk. We take the view that the **understanding of financial risk** and, consequently, the **definition of financial risk** in a comprehensive, principle-based reporting scheme should be consistent. Therefore, we are not convinced by IASB's position to retain the definition of financial risk in IFRS 4 while amending the definition of a derivative in IAS 39.

Reclassification of financial instruments into or out of the classification of at fair value through profit or loss

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 proposed amendment to the definition of financial instruments because it represents a meaningful clarification.

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 proposed amendment to insert paragraph 50A in IAS 39 to clarify changes in circumstances that are not reclassifications into or out of the fair value through profit or loss category.

Designating and documenting hedges at the segment level

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 proposed amendment to paragraph 73 of IAS 39 to remove the references to segments and segment reporting.

Applicable effective interest rate on cessation of fair value hedge accounting

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 proposed amendment to AG8 of IAS 39 as it removes a perceived inconsistency in the guidance of IAS 39 and represents a meaningful clarification.

Treating loan prepayment penalties as closely related embedded derivatives

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 basically agree with the proposed amendment 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 are closely related to the host debt contract and, therefore, do not need to be accounted for separately.

However, we are concerned that the proposed amendment, as it is currently drafted, is not sufficiently clear and, hence, could cause confusion. This is because the sentence to be added to AG30(g) can be read in two ways:

View 1: The amended sentence includes **two conditions** that a prepayment option must meet in order to be considered closely related,

- the **first condition** being that the exercise price must **compensate** the lender for loss of interest by reducing the economic loss from reinvestment and
- the **second condition** being that the prepayment option must **meet all of the conditions** contained in AG 33(a)

View 2: The prepayment option must meet the conditions contained in AG 33(a). The reference to the exercise price that must compensate for the loss of interest does not constitute a second condition that must be met, but merely describes the overall rationale behind a prepayment option.

View 1 would require clarifying what is meant by 'compensation', especially to what degree the loss of interest must be compensated.

In addition, it might be worthwhile to consider clarifying which conditions in AG33(a) exactly must be met by the prepayment option, since AG33(a) addresses two distinct situations, either of which will lead to the embedded derivative being considered not closely related and therefore accounted for separately.

Situation 1 in AG 33(a) addresses the settlement by which the holder will not recover substantially all of the recognised investment.

Situation 2 in AG 33(a) addresses an embedded derivative that might

- at least double the initial rate of return

and

- result in a rate of return that is at least twice the market return.

To us, it is unclear whether the proposed reference in AG30(g) to AG33(a) is intended to refer only to the first situation or whether the prepayment option need not meet neither situation 1 nor situation 2 in AG33(a), i.e. meet AG33(a)'s requirements in full.

Finally, we would like to note that it would enhance the understandability of this amendment if the Basis for Conclusions stated both sources of inconsistency, i.e. paragraphs AG30(g) and AG33(a) of IAS 39.

Proposed amendments to International Accounting Standard 40 *Investment Property*

Property under construction or development for future use as investment property

***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?*

We do not agree with the proposed amendment to include property under construction or development for future use as an investment property [IPUC] in the scope of IAS 40 because, from our point of view, this amendment does not represent a minor amendment due to its practical implications.

We understand the IASB's concerns about the inconsistency in accounting for the redevelopment of an existing investment property and the construction or development of a future investment property. However, we are not convinced that the proposed amendment to IAS 40 is a suitable solution for this inconsistency for the following reasons:

Firstly, we do not agree with the IASB's conclusion that difficulties of reliably estimating fair values of IPUC have been lessened significantly. Even if the use of fair values has been increased and, as a result, valuation techniques have potentially become more robust since IAS 40 was issued, we doubt that the extent of those developments are sufficient to remove all concerns about the difficulties of reliably estimating fair values of IPUC.

It seems to be clear that paragraphs 45, 46(a) and 46(b) of IAS 40 are hardly relevant in connection with IPUC. This results from the following: Current prices in active markets are rarely, if ever, available because it is highly unlikely that an active market for IPUC exists. Recent prices for similar properties on less active markets do not represent an appropriate basis, either, because it can be assumed that each IPUC is very different to other IPUC because of its individual progress of construction work. An IPUC is, therefore, hardly ever comparable to other properties even if they are also under construction or development. From this it follows that the determination of the fair value of IPUC is highly likely based on cash flow projections.

In respect of determining the fair value of IPUC using cash flow projections we are of the opinion that the guidance for fair value measurement in IAS 40 is not sufficiently comprehensive and clear. On the one hand, IAS 40.40 states: 'The fair value of investment property reflects, among other things, rental income from **current leases** and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from **future leases in the light of current conditions**.' [emphasis added]. Normally, there are no current leases for IPUC. The case of a pre-leased IPUC is possible, but more likely at the end of the construction or development period than at the beginning. Therefore, an entity has to take into account rental income from future leases to determine the fair value of IPUC. However, IAS 40.40 requires an entity doing this 'in the light of the current conditions'. From our point of view this guidance complicates a meaningful fair value determination of IPUC as it is not clear what this guidance means in the case of IPUC that is not in a condition to be used and, hence, to be rented. On the other hand IAS 40.51 precludes an entity to take into account future capital expenditure that will improve or enhance the property and consequently related future benefits.

To sum up, we are of the opinion that the inclusion of IPUC in the scope of IAS 40 needs more guidance with regard to the determination of fair value of such property. We, therefore, think that the Annual Improvements Process project is not appropriate to conduct this amendment. Moreover, we would appreciate a sound review of the fair value measurement guidance given in IAS 40 in respect of IPUC and investment property under redevelopment as well, and, finally, we would support a result that leads to a consistent accounting for both.

Consistency of terminology with IAS 8

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 proposed amendment to conform terminology used in IAS 40.31 to terminology used in IAS 8 because it represents a meaningful amendment.

However, we wonder why the first sentence of the amended IAS 40.31 refers to '**reliable and more relevant** information' while the second sentence of the amendment only refers to '**more relevant** presentation'. The phrases to be replaced by this amendment are 'more appropriate presentation' in both sentences.

Investment property held under lease

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 regarding the accounting for investment property held under lease because it represents a meaningful clarification.

Proposed amendments to International Accounting Standard 41 *Agriculture*

Point-of-sale costs

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 basically agree with the proposed amendment to replace the terms 'point-of-sale costs' and 'estimated point-of-sale costs' in IAS 41 with 'costs to sell' because it increases the consistency of used terms within IFRSs.

However, we would like to note that, from our point of view, the consistency could be further improved if, in addition to the proposed amendment, the underlying fair value concept in IAS 41 was aligned with the fair value concept in other IFRSs even if we know that such amendment would not be a minor amendment. We understand that the definition of 'costs to sell' excludes any costs that have already been included in the fair value measurement of the assets. This also ensures that transport costs are not double-counted. Nevertheless, we take the view that the replacement of the terms 'point-of-sale costs' and 'estimated point-of-sale costs' with 'costs to sell' could lead to confusion. The potential confusion results from the fact that the fair value in IAS 41 includes transport costs while the fair value in other standards [IAS 36/IFRS 5] does not include transport costs. Accordingly, the term 'costs to sell' does not include transport costs in the case of IAS 41, but it does in the case of IAS 36/IFRS 5, although the term will be defined in the same manner in the amended IAS 41 as in IAS 36/IFRS 5. This does not seem to be consistent, and, moreover, we believe that different underlying fair value concepts are not reasonable. Therefore, we think the IASB should consider aligning the fair value concept in IAS 41 with the fair value concepts in other IFRSs in addition to the replacement of the terms 'point-of-sale costs' and 'estimated point-of-sale costs' with 'costs to sell'.

Discount rate for fair value calculations

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 applied to determine fair value because it represents a meaningful improvement.

Additional biological transformation

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 do not agree with the proposed amendment to remove the exclusion of 'additional biological transformation' from paragraph 21 of IAS 41. In our opinion the proposed amendment is not a minor change as it affects an essential aspect in respect of the underlying fair value measurement concept. Furthermore, the proposal seems to be in conflict with the first sentence of paragraph 21 of IAS 41 that requires an entity to 'determine the fair value of a biological asset in its **present location and condition**.' [emphasis added]. Therefore, we are of the opinion that this amendment should not be addressed as part of the Annual Improvements Process project.

In addition, we do not think that the timing for the proposed amendment is appropriate given the IASB's comprehensive project on 'Fair Value Measurements'.

Minor wording improvements: examples of agricultural produce and products

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 proposal to amend the examples in paragraph 4 of IAS 41 because it represents a meaningful correction.