НАЦИОНАЛЬНАЯ ОРГАНИЗАЦИЯ ПО СТАНДАРТАМ ФИНАНСОВОГО УЧЕТА И ОТЧЕТНОСТИ

# COMMENT LETTER

By electronic submission to IASB website- iasb.org

January 10, 2007

**Re:** ***ED of proposed Amendments to International Financial Reporting Standards (IFRSs) - First Annual Improvements Project***

Dear Sirs,

National Accounting Standards Board of Russia (NASB) appreciates the opportunity to submit comments on the ***ED of proposed Amendments to International Financial Reporting Standards (IFRSs) - First Annual Improvements Project*** (hereinafter "the Paper"). Our major comments may be briefly summarized as follows.

The NASB supports activities of the Board aimed at the improvement of existing IFRSs and removing internal inconsistencies that exist therein. The Board defines the objective of the annual improvements project as 'to provide a streamlined process for dealing efficiently with a collection of miscellaneous, non-urgent but necessary minor amendments to IFRSs'. However, some of the proposed amendments in our view are not minor in their substance and possible consequences. In relation to that it may be useful to define formal criteria for determination of amendments that may be treated as minor by their nature and focus only on such amendments. We would also propose to simplify wording of the IFRSs (not substance) elsewhere if possible, remembering that growing adoption of IFRSs around the world requires their high quality translations into many languages of national jurisdictions. Such 'simplifications' of wording that do not intend to change the meaning of the standards may also be the subject of annual improvements projects.

The NASB members, having considered the Paper, express their support to some of the proposed amendments, their agreement in principle with some other proposals (with recommended changes in wording proposed) and their disagreement with a number of proposals of the Board presented in the Paper. The detailed comments on the questions raised in Invitation to Comment are enclosed.

Yours sincerely,

Mikhail Kiselev
Chairman
National Accounting Standards Board

Detailed comments to the
***ED of proposed Amendments to International Financial Reporting Standards (IFRSs) - First Annual Improvements Project***

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

**Restructuring of IFRS 1**
The Board proposes to restructure IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The main change proposed is to remove some transitional provisions relating to particular IFRSs from the main body of the IFRS to appendices. The restructuring will not alter the technical content of IFRS 1. However, some transitional provisions have been removed as they are no longer relevant.

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

NASB agrees with the proposed restructuring and believes that new structure of the IFRS 1 is more user-friendly and easy to implement and to amend in the future.

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

**Plan to sell the controlling interest in a subsidiary**
The Board proposes to amend IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* by adding paragraph 8A 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.

***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?*

The NASB supports the proposed amendment as it believes that in situations in which an entity is committed to plan to sell the controlling interest in a subsidiary and, after the sale, retains a non-controlling interest, only the IFRS 5 classification as 'held for sale' is appropriate for subsidiary's assets and liabilities. Indeed committed sale of controlling interest in near future will result in de-recognizing of subsidiary's assets and liabilities from consolidated balance sheet of the reporting entity, and therefore, should be considered as sold in their entirety rather than as in proportion of interest sold.

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

**Presentation of finance costs**
The Board proposes to amend the guidance on implementing IFRS 7 *Financial Instruments: Disclosures*. There is a potential conflict between that guidance and IAS 1 *Presentation of Financial Statements* (as revised in 2007). IAS 1 precludes the presentation of net finance costs (or a similar term) in the statement of comprehensive income unless the finance costs and finance revenue included in the net total are disclosed. Paragraph IG13 of the guidance on implementing IFRS 7 indicates that total interest income and total interest expense (as disclosed in accordance with paragraph

20 (b) of IFRS 7) could be included as a component of finance costs. The Board proposes to resolve the potential conflict by amending paragraph IG13.

***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?*

The NASB would like to note that in this case the conflict between IAS 1 and IFRS 7 is not genuine. In fact, the conflict is only between IAS 1 and IG to IFRS 7. However, the latter is not a part of IFRSs, and it should be taken into account as the status of IG to any IFRS is lower than the status of any IFRS itself. It means that in the case under discussion the application of IG13 of IFRS 7 is not consistent with IFRS and therefore is forbidden, and regardless of the proposed amendment IAS 1 should apply. The NASB, however, agrees with the proposed amendment, as it removes the existing conflict between IAS 1 and IG to IFRS 7.

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

**Statement of compliance with IFRSs**

The Board proposes to insert in IAS 1 *Presentation of Financial Statements* (as revised in 2007) disclosure requirements for entities that refer to International Financial Reporting Standards (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. Such an entity would be required to make disclosures about how its financial statements would have been different if prepared in full 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?*

The NASB does not support this amendment. NASB members believe that the proposed disclosure requirements would not add significant value to the financial statements of entities that refer to International Financial Reporting Standards (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. In fact, due to the lack of quantified effects on financial position and performance disclosed, such financial statements even with the proposed additional disclosures would continue to be less useful and potentially misleading in comparison with IFRS fully compliant statements. Moreover, significant efforts and resources would be required from user of such financial statements to achieve reliable and comparable information in those circumstances. However, even by doing so, the user due to the lack of internal information needed for proper quantification of the effect of deviations on reporting entity's financial statements will receive information less reliable than information, which may be prepared by the reporting entity with the same or lesser costs. Therefore, the NASB members believe that the widely known 'all or nothing principle' of IFRS should be retained.

**Current/non-current classification of convertible instruments**

IAS 1 requires a liability to be classified as current if the entity does not have an unconditional right to defer settlement for at least twelve months from the end of the reporting period. The *Framework* states that settlement includes conversion of the liability into equity. Consequently, the liability component of a convertible instrument that the entity could be required to settle in shares at any time would be classified as current. The Board proposes to limit the requirement for an entity to have an unconditional right to defer settlement to settlement by transfer of cash or other assets.

***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?*

NASB agrees with the proposed amendment to clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current. However some NASB members have alternative view on this issue that is presented below.

***Alternative view:***

Some NASB members understand that by introducing the proposed amendment, the Board seeks to make an exception for the liability component of convertible instruments that could be required to settle in equity at any time from being classified as current. Those NASB members agree that such an exemption is appropriate. Settlement of a liability by the issue of equity is a very specific form of settlement that does not require an outflow from the entity of resources embodying economic benefits, and therefore, will not have any negative effect on the entity's liquidity or solvency. Therefore, convertible instruments should be presented in the balance sheet in accordance with the timing of their settlement by means other than by the issue of equity. However, in their view, the wording proposed by the Board appears to be ambiguous and may lead to undesirable consequences. Indeed, the proposed amendment may be interpreted as if it required that any liability that may be settled by means other than the transfer of cash or other assets should be classified as non-current. These include liabilities to be settled by exchange to another liability or rendering of services. This is not a desirable outcome. Such liabilities should be analysed specifically, because some of them may require an outflow from the entity of resources embodying economic benefits during the next twelve months after the reporting period, and therefore, should be classified as current. The NASB members believe that in all cases other than conversion of liability into equity, the timing of outflow of economic benefits from the entity resulting from the settlement of liability, rather than the timing of direct transfer of cash of other assets, is a trigger for current/non-current classification. Therefore, the NASB proposes the new wording of the amendment to paragraph 69(d) as follows (new text is underlined, deleted is struck through):

**'(d) it does not have an unconditional right <u>to settle liability by conversion into equity or </u>to defer ~~settlement of the liability~~ <u>an outflow from the entity of resources embodying economic benefits</u> required for the settlement of the liability ~~by the transfer of cash or other assets~~ for at least twelve months after the reporting period (see paragraph 73).'**

**Current/non-current classification of derivatives**

The Board proposes to amend IAS 1 to address inconsistent guidance in IAS 1 regarding the current/non-current classification of derivatives. The guidance included in paragraph 71 of IAS 1 might be read by some as implying that financial liabilities that are classified as held for trading in accordance with IAS 39 are required to be presented as current. The Board expects the criteria set out in paragraph 69 of IAS 1 to be used to assess whether a financial liability should be classified as current or non-current. The Board also noted that a similar concern exists in respect of current assets in paragraph 68.

***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 clas-*

*sified as held for trading in accordance with IAS 39 are required to be presented as current? If not, why?*

The NASB agrees in principle 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. However, in the view of the NASB members this amendment is not sufficient, because guidance for classification of financial assets and financial liabilities that are classified as held for trading in accordance with IAS 39 remains ambiguous, mainly because it is not clear what is the difference between the terms ‘assets and liabilities held primarily for the purpose of trading‘ and ‘assets and liabilities held for trading’. We understand that the Board’s intention was to except from classification as current those derivative financial instruments that are not ‘*acquired or incurred principally for the purpose of selling or repurchasing it in the near term*’ (specified in the section (i) of the definition of ‘held for trading’ in IAS 39) or are not ‘*a 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’* (specified in the section (ii) of the definition of ‘held for trading’ in IAS 39), because these derivatives may not be supposed to be realized or settled in ‘near time’. The NASB believes that classification of derivatives that do not meet conditions specified in sections (i) or (ii) of the definition of ‘held for trading’ as held-for-trading is itself inappropriate, and therefore, suggests to makes it clear that derivatives being always measured at fair value through profit or loss are not in any case held for the purpose of trading. This may be solved by reorganization of the definition of ‘financial asset or financial liability at fair value through profit or loss’ by separation of derivatives as a specific subcategory within this category, rather than as an element of ‘held for trading’ subcategory. In addition to that the term ‘near time’ also should be clarified. In the view of the NASB members, the most appropriate substitute for this term is ‘short time’ as it widely interpreted as ‘one reporting year and less’ that is absolutely consistent with the purpose of current/non-current classification. In such a case, definition of ‘assets and liabilities measured at fair value through profit or loss’ may be presented as follows (new text is underlined, deleted is struck through):

***‘A financial asset or financial liability at fair value through profit or loss is a financial asset or financial liability that meets either of the following conditions.***

***(a) It is classified as held for trading. A financial asset or financial liability is classified as held for trading if it is:***

***(i) acquired or incurred principally for the purpose of selling or repurchasing it in the ~~near~~ <u>short</u> term;***

***(ii) 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~~; or~~***

***(iii) ~~a derivative (except for a derivative that is a designated and effective hedging instrument)~~.***

***<u>(b) a derivative that does not meet criteria for being classified as held-for-trading and is not a financial guarantee contract or a designated and effective hedging instrument.</u>***

***~~(b)~~ <u>(c)</u> Upon initial recognition it is designated by the entity as at fair value through profit or loss. Any financial asset or financial liability within the scope of this Standard may be designated when initially recognised as a financial asset or financial liability at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured (see paragraph 46(c) and Appendix A paragraphs AG80 and AG81)…’***

As this amendment has been made it will be no differences between ‘assets/liabilities held primarily for the purpose of trading’ in IAS 1 (paragraphs 66 (b) and 69 (b)) and ‘assets and liabilities held for trading' in IAS 39, and therefore, the former term may be effectively substituted with the latter. This will require an amendment to paragraph 66 (b) of IAS 1 as follows (new text is underlined, deleted is struck through):

***'66 An entity shall classify an asset as current when:***
***(a) …***
***(b) it holds the asset ~~primarily~~ for ~~the purpose of~~ trading;***
***(c) …'***

Similar amendment should be made to paragraph 69 (b) of the IAS 1.

As the number of sub-categories within 'financial assets at fair value through profit or loss' category will rise as a result of the proposed amendment, it will be appropriate to make consequent changes in paragraph 8 of IFRS 7 requiring separate disclosure of financial instruments classified as held for trading and financial instruments designated as 'financial assets at fair value through profit or loss' upon initial recognition as follows (new text is underlined, deleted is struck through):

'8 The carrying amounts of each of the following categories, as defined in IAS 39, shall be disclosed either on the face of the balance sheet or in the notes:

(a) financial assets at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition; ~~and~~ (ii) those classified as held for trading in accordance with IAS 39 and (iii) derivatives that do not meet criteria for being classified as held-for-trading and are not a financial guarantee contract or a designated and effective hedging instrument;

(b) …'

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

**Status of implementation guidance**
The Board proposes to amend IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to clarify the status of implementation guidance. The Board has been advised that paragraph 7 of IAS 8 could be misinterpreted as requiring the mandatory application 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?*

The NASB agrees that the current wording in IAS 8 may lead to misinterpretations of status of implementation guidance, and therefore, supports the amendments proposed by the Board. Moreover, the NASB members believe that these amendments will be useful when translating IFRS to the languages of national jurisdictions.

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

**Dividends declared after the end of the reporting period**
The Board proposes to amend IAS 10 *Events after the Reporting Period* to clarify why a dividend declared after the reporting period does not result in the recognition of a liability.

***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?*

The NASB agrees that some may misinterpret requirements in IAS 10 implying that in some circumstances liability should be recognized for dividends not declared until after the reporting period on the basis of constructive obligation. The NASB notes that it is clearly not an intention of the IAS 10, and therefore, supports the amendment proposed by the Board.

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

**Recoverable amount**
The Board proposes to amend IAS 16 *Property, Plant and Equipment* to remove the perceived inconsistency between the definition of recoverable amount and the term ‘recoverable amount’ used in other IFRSs.

***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?*

The NASB agrees that the definition of recoverable amount contained in IAS 16 is inconsistent with the definition used in other relevant standards. Although the NASB members noted that in practice the term “net selling price’ is usually interpreted as ‘fair value less costs to sell’, they believe that the proposed amendment is a logical way to remove the perceived inconsistency and will not have any effect on the substance of existing requirements. Therefore, the NASB supports the proposed amendment.

**Sale of assets held for rental**
The Board also proposes to amend IAS 16 to address presentation issues arising from assets held for rental to others that are routinely sold in the course of ordinary activities. The Board proposes a consequential amendment to IAS 7 *Statement of Cash Flows* in respect of this issue. The proposed amendment to IAS 7 is included in the IAS 7 chapter of this exposure draft.

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

The NASB agrees that in the case of industries, where entities are in the business of renting and subsequently selling the same asset, presentation of proceeds from sales of such assets as gross selling revenue, rather than as a net gain or loss on the sale, would better reflect the ordinary activities of those entities. Therefore, the NASB supports in principle the amendment to IAS 16. However, the NASB members are of the view that in addition to the proposed amendment a consequential amendment to the disclosure requirements in IAS 16 would be logical. Indeed, paragraph 73(e) of the IAS 16 requires to disclose a reconciliation of the carrying amount of the property, plant and equipment at the beginning and end of the period. Line-items to be disclosed separately includes additions, reclassifications of PPE to assets held for sale (disposal groups) and other disposals, acquisitions through business combinations, increases or decreases resulting from revaluations and from impairment losses recognised or reversed directly in equity, impairment losses recognised in profit or loss, impairment losses reversed in profit or loss, depreciation, and the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity. All other changes are required to be disclosed in aggregate. The NASB members believe that transfers from PPE to inventories will be significant for the entities discussed, and therefore, disclosure of information about such transfers is of high importance. Therefore, the NASB recommends to amend paragraph 73 (e) by inclusion of a separate line-item requiring to disclose any transfers of PPE to inventories.

However, the NASB members doubt that consequential amendment to IAS 7 is appropriate. We believe that acquisition of tangible assets to be used to earn rental income during two or more reporting periods is an acquisition of PPE and hence should be properly presented in the investing section of cash flow statement. Transfer of such asset from PPE to inventories held for sale in its turn for the entities under discussion is usually a material non-cash transaction during the period that should also be disclosed in relevant section of cash flow statement. This will help users to understand correctly the figures of additional revenue from sales of assets that are initially acquired as PPE, and to match rental proceeds with the amounts invested in PPE held for rental. Therefore, in the view of the NASB members, inclusion of cash payments to acquire such assets in operating section of the cash flow statement will not present fairly activities of the entity and will reduce comparability of its financial statements with those of entities that acquire the same assets to earn rental income only. Moreover, such classification of those cash flows will result in undesirable inconsistency of presentation of assets and cash flows derived from them in the balance sheet and cash flow statement. Saying that, we propose new wording of amendment to paragraph 14 of IAS 7 as follows (new text is underlined, deleted text of Board's proposed amendment is struck through):

'… It includes cash payments to manufacture or acquire assets held for rental to others that are routinely sold in the course of entity's ordinary activities as described in paragraph 68A of IAS 16 *Property, Plant and Equipment.* However, ~~are cash flows from operating activities. The~~ cash receipts from rent and subsequent sales of such assets are ~~also~~ cash flows from operating activities. Transfer of such assets from property, plant and equipment to inventories held for sale is an example of non-cash transaction that should be disclosed in accordance with paragraph 43 of this Standard.'

It also would be desirable to add sub-paragraph 44 (d) as an example of such type of non-cash transactions with the following wording:

'…(d) the transfer from property, plant and equipment to inventories of an asset held for rental to others that are routinely sold in the course of entity's ordinary activities.'

***Alternative view:***

Some of the NASB members have alternative view on the issue under consideration. They believe that circumstances where entities held assets for rental to others and then routinely sold these assets in the course of their ordinary activities should be analyzed on individual basis. In the cases when rental activity is a main kind of the entities' activities, and therefore, rental proceeds significantly excess proceeds from sale of such assets, they should account for these assets as PPE with other gains (or losses) recognition upon their disposal. In opposite cases, where there is solid evidence that the main kind of the entities' activities is sales of such assets rather than their rent to others, such entities should account for these assets as inventories used in operations with long-term normal operating cycle, i.e. in accordance with IAS 2 from the date of their acquisition to their disposal date.

In addition to that, although the NASB recognizes that this would be probably outside the scope of the Invitation to Comment of Annual Improvements project, it believes that it would be appropriate to make one additional minor amendment to IAS 7 related to non-cash transactions within this project. Paragraph 43 states that non-cash transactions are related to investing and financing activities, however, says nothing about operating activities. Some may interpret that as if there were no need to disclose non-cash transactions related to operating activities, such as barter trade transactions, which may constitute a significant part of the entity's operations. The NASB understands that this is not an intention of the Board, and therefore, suggests adding to paragraphs 43 and 44 references to operating activity.

## Proposed amendments to International Accounting Standard 17 *Leases*

### Classification of leases of land and buildings

The Board proposes to amend IAS 17 *Leases* to address a perceived inconsistency between the specific classification guidance for leases of land and buildings and the general lease classification guidance in IAS 17.

***Question 11*** *- Do you agree with the proposal to amend paragraphs 14 and 15 of IAS 17 to eliminate a perceived inconsistency between the specific classification guidance for leases of land and buildings and the general lease classification guidance in IAS 17? If not, why?*

The NASB agrees with the proposed amendment, as it believes that overall principles rather that specific rules should be applied in classification exercise. Those principles should be the same for all reported items with similar economic substance. Deleted text of paragraphs 14 and 15 appears to be the specific rules representing an exemption from overall principles applied to lease classification, and therefore, its deletion is considered by the NASB members as appropriate.

### Contingent rent

IAS 17 requires contingent rent relating to an operating lease to be estimated at the inception of the lease and recognised on a straight-line basis over the lease term. However, because of perceived ambiguities in the IFRS, current practice has been to recognise contingent rent relating to an operating lease in the manner prescribed for finance leases (i.e. as incurred). The Board proposes that contingent rent relating to an operating lease should be recognised as incurred. This would achieve consistency in the treatment of contingent rent for finance and operating leases.

***Question 12*** *- Do you agree with the proposal that contingent rent relating to an operating lease should be recognised as incurred? If not, why?*

The NASB agrees that the requirements of IAS 17 related to contingent rent under operating leases are ambiguous and inconsistent with the treatment of contingent rent relating to finance leases. The NASB is also aware that in practice entities recognise such rent as incurred and auditors agree with such approach. This amendment should be considered as a technical amendment that will improve quality of the wording only and will not have significant effect on the current practice. Therefore, the NASB members support this amendment. In addition to that, the NASB members noted that in the proposal to amend paragraph 40 of the IAS 17 the Board suggests to include words 'and contingent rent' in order to state that this element of lease payments along with cost of services is not applied against the gross investment in the lease. The NASB members believe that the words 'tax payments reimbursed by the lessee' should also be included in the same sentence, as their absence may create undesirable implication that in the case of accounting for lease payments under the finance lease by the lessor, reimbursable taxes should be applied against the gross investment in the lease.

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

**Costs of originating a loan**
The Board proposes to amend the guidance accompanying IAS 18 *Revenue* to remove an inconsistency with IAS 39 *Financial Instruments: Recognition and Measurement*. The inconsistency relates to the definition of costs incurred in originating a financial asset that should be deferred and recognised as an adjustment to the effective interest rate. The proposed amendment states that the transaction costs to be applied to the accounting for financial asset origination fees in accordance with IAS 18 are those defined in IAS 39.

***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?*

Notwithstanding that strictly speaking, appendix to any IAS, including IAS 18, is not a part of the IFRSs, and therefore, can not create any requirements to the financial statements, the NASB agrees with the proposed amendment, as it makes illustrative and explanatory materials in appendix to IAS 18 consistent with the IFRSs themselves.

**Proposed amendments to International Accounting Standard 19 *Employee Benefits***

**Curtailments and negative past service costs**
The Board proposes to amend IAS 19 in respect of plan amendments. Ambiguous definitions of negative past service costs and curtailments have resulted in diverse accounting for plan amendments that reduce existing benefits. This proposed amendment clarifies 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. The Board also proposes to delete a reference to materiality in paragraph 111 of IAS 19.

***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?*

Although paragraph 98(e) of the IAS 19, in the view of the NASB members, may be unambiguously interpreted that curtailment is a plan amendment that reduces benefits for future services NASB agrees that definitions of negative past service costs and curtailments is somewhat unclear, and therefore, supports proposed amendments.

***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?*

The NASB supports proposed deletion, as agrees that this sentence is unnecessary. However, the NASB concerns on proposed replacement of 'material' with 'significant' in paragraphs 111(a) and 111(b), because it believes that such a replacement may have a significant effect on current practice. 'Significant' appears to be bigger than 'material', and therefore, some material but insignificant 'reductions' in paragraph 11(a) and 'elements' in paragraph 111(b) will no longer be considered as events giving rise to curtailments. Moreover, the term ‘significant’ in comparison with ‘material’ is not specifically defined anywhere in IFRS, and hence, replacement opens way for more arbitrary judgments.

**Plan administration costs**
The Board proposes to amend the definition of return on plan assets in 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.

***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?*

The NASB agrees with proposed amendment, as it eliminates possible cases of double counting of costs under consideration.

**Replacement of term ‘fall due’**
The Board proposes to replace the term ‘fall due’ in the definitions of short-term employee benefits and other long-term employee benefits.

***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?*

The NASB agrees with the proposed amendment in principle. However, the NASB believes that it would be desirable to slightly modify the proposed wording of the amendment. We have noted that new definitions of short-term and other long-term employee benefits state that an employee ***becomes or does not become entitled to*** such benefits within twelve months after the end of the period in which the employee renders the related service. It is not a fully correct statement, because an employee ***becomes entitled to such benefits within the year when he/she renders a service*** but this entitlement give him ***right to receive such benefits*** within next year (for short-term benefits) or after than one year (for other long-term benefits). Therefore, we propose to modify the wording of discussed definitions as follows (new text is underlined, deleted text of the Board’s proposed amendment is struck through):

‘*Short-term employee benefits* **are employee benefits (other than termination benefits) ~~to which the employee becomes entitled~~ <u>that the employee is entitled to receive</u> within twelve months after the end of the period in which the employee renders the related service.** ‘

‘*Other long-term employee benefits* **are employee benefits (other than post-employment benefits and termination benefits) ~~to which the employee does not become entitled~~ <u>that the employee is not entitled to receive</u> within twelve months after the end of the period in which the employee renders the related service.** ‘

**Guidance on contingent liabilities**
The Board proposes to remove from IAS 19 the reference to recognition in relation to contingent liabilities.

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

NASB agrees with this amendment.

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

**Consistency of terminology with other IFRSs**
The Board proposes to amend IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to conform terminology used by IAS 20 to the equivalent defined or more widely used terms. The Board proposes consequential amendments to IAS 41 *Agriculture* in respect of this issue. The proposed consequential amendments to IAS 41 are included in the IAS 41 chapter of this exposure draft.

***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?*

The NASB being a strong supporter for consistency of terminology used within the whole IFRS, supports efforts of the Board to achieve that aim. However, we have some comments to the proposed amendments. First, anywhere in the relevant amended paragraphs, the Board replaced references to ‘income’ or ‘expense’ with reference to ‘profit or loss’. We agree that term ‘profit or loss’ should be used within IAS 20 as it used in many other IFRS’s, but at the same time we believe that reference to ‘income’ or ‘expense’ is useful to improve understandability of the Standard, and therefore, in our view it is appropriate to use a wording like ‘recognised as income [expense] in profit or loss’ rather than its shortened version ‘recognised in profit or loss’. Secondly, we have noted that in paragraph 13 the Board proposes to replace ‘credited directly to shareholders’ interests’ with ‘recognised outside profit or loss’. We agree that the former wording should be replaced, but we believe that ‘outside profit or loss’ is not an appropriate wording for that case. We recommend to replace it with ‘recognised directly in equity’, because the term ‘outside of profit or loss’ indirectly implies that such government grants may be recognized somewhere other than directly in equity or in profit or loss. Moreover, we considers that ‘outside of profit or loss’ should be replaced with “directly in equity’ anywhere in IAS 20. Thirdly, in order to provide consistency within the terminology used in the Standard, we recommend replacing ‘deferred credit’ in paragraph 32 with ‘deferred income’ as this term used in the same meaning in all other paragraphs of IAS 20. Moreover, the words “recognition of deferred credit’ are somewhat incorrect because only elements of the financial statements, i.e. assets, liabilities, expenses or income are to be recognised. The fourth, on the basis of the same rationale, we recommend to delete words ‘costs or’ in the first sentence of paragraph 17, because expenses or assets may be recognised in the financial statements, but costs may not.

**Government loans with a below-market rate of interest**
The Board also proposes to amend IAS 20 to remove an inconsistency with IAS 39 *Financial Instruments: Recognition and Measurement*. The proposed amendment clarifies 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.

***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?*

The NASB agrees with the proposed amendment, as it believes that government loans with a below-market rate of interest are financial liabilities, and therefore, they should be accounted for consistently with requirements stated in IAS 39 for financial liabilities as a whole.

**Proposed amendment to International Accounting Standard 23 *Borrowing Costs***

**Components of borrowing costs**

The Board proposes to amend IAS 23 *Borrowing Costs* (as revised in 2007) to refer to the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* on effective interest rate when describing the 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?*

The NASB agrees in principle with the proposed amendment as it seeks to achieve consistency between individual IFRSs. However, it should be noted that in definition of effective interest method IAS 39 states that '*the calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see IAS 18 Revenue), transaction costs, and all other premiums or discounts*', i.e. actually all applicable fees and costs paid and also all other premiums or discounts are included in interest expense calculation under the effective interest method. Appendix to IAS 18 in its turn specifies that only *'fees that are an integral part of the effective interest rate of a financial instrument … are generally treated as an adjustment to the effective interest rate'*. It also mentions other payments related to borrowings such as *'fees earned as services are provided'* and *'fees that are earned on the execution of a significant act'* that are not generally treated as an adjustment to the effective interest rate. Pointing out that the NASB believes that inconsistency between IAS 18 and IAS 39 exists and this may result in non-inclusion of some fees paid in borrowing costs calculated under IAS 23 after amendments as reference to interest expenses calculated under IAS 39 only does not cover such fees. Therefore, in the NASB's view it is desirable to reconsider the proposed amendment.

**Proposed amendment to International Accounting Standard 27 *Consolidated and Separate Financial Statements***

**Measurement of subsidiary held for sale in separate financial statements**

The Board proposes to amend IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2007) to require investments in subsidiaries that are accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* 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).

***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?*

The NASB agrees that there is an apparent inconsistency in the guidance in IAS 27 and IFRS 5 for the accounting by a parent in separate financial statements when a subsidiary that is accounted for in accordance with IAS 39 is classified as held for sale in accordance with IFRS 5. The proposed amendment will eliminate this inconsistency, and therefore, the NASB supports it.

**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**

The Board proposes to amend IAS 28 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 *Financial Instruments: Recognition and Measurement* with changes in fair value recognised in profit or loss. The Board proposes consequential amendments to IFRS 7 *Financial Instruments: Disclosures* and IAS 32 *Financial Instruments: Presentation* in respect of this issue. The proposed consequential amendments to IFRS 7 and IAS 32 are included in the respective chapters of this exposure draft. A similar amendment is proposed in respect of the required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss. The proposed amendment to IAS 31 *Interests in Joint Ventures*, the invitation to comment and the respective basis for the Board's proposal are included in the IAS 31 chapter in this exposure draft.

***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?*

The NASB agrees that there is apparent inconsistency in the disclosure requirements for entities that are eligible and elect to account for investments in associates at fair value in accordance with IAS 39. However, the NASB would like to highlight that in the case of adoption of this amendment, disclosures reported by such entities under IAS 28 may significantly decrease, and this may not be in favor of the users of financial statements. Therefore, the NASB members believe that this issue probably should be scoped out from annual improvements project and be more comprehensively considered within a specific project.

**Impairment of investments in associates**

The Board proposes to amend IAS 28 to clarify the circumstances in which an impairment charge against an investment in an associate should be reversed.

***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?*

The NASB agrees with the proposal to amend paragraph 33 of IAS 28 to clarify that any impairment loss recognized in respect of investment in an associate should not be allocated to goodwill and other assets included in this investment, and accordingly any reversals of those impairments should be recognized to the extent that the recoverable amount of the investment subsequently increases regardless of the amount of implied goodwill. We note that one of the Board members voted against the amendment. The NASB members believe that the arguments provided by Mr. Yamada are reasonable and should be considered thoughtfully. However, their adoption would require making significant changes in IAS 28, and therefore, in our view they should not be considered within the annual improvements project.

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

**Consistency of terminology with other IFRSs**

The Board proposes to amend IAS 29 *Financial Reporting in Hyperinflationary Economies* to update the description of historical cost financial statements in paragraph 6 and to conform terminology in IAS 29 to the equivalent defined or more widely used terms.

***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?*

The NASB agrees with the proposed amendments, as they improve out-of-date terminology used in this Standard and make it consistent with terms widely used in other IFRSs.

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

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

The Board proposes to amend IAS 31 *Interests in Joint Ventures* 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 *Financial Instruments: Recognition and Measurement* with changes in fair value recognised in profit or loss. The Board proposes consequential amendments to IFRS 7 *Financial Instruments: Disclosures* and IAS 32 *Financial Instruments: Presentation* in respect of this issue. The proposed consequential amendments to IFRS 7 and IAS 32 are included in the respective chapters of this exposure draft. A similar amendment is proposed in respect of the required disclosures when investments in associates are accounted for at fair value through profit or loss. Details of the proposed amendments to IAS 28 *Investments in Associates*, the invitation to comment and the respective basis for the Board's proposal are included in the IAS 28 chapter in this exposure draft.

***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?*

The NASB agrees with the proposed amendments for the same reasons and with the same comments as provided for investments in associates in the answer to Question 22.

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

**Earnings per share disclosure in interim financial reports**

The Board proposes to amend IAS 34 *Interim Financial Reporting* to require the presentation of basic and diluted earnings per share only when the entity is within the scope of IAS 33 *Earnings per Share*.

***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?*

The NASB supports this proposal as it removes unreasonable obligation for entities outside the scope of IAS 33 to present basic and diluted earnings per share in their interim financial reporting, although the same is not required for their annual financial statements.

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

**Disclosure of estimates used to determine recoverable amount**

The Board proposes to amend IAS 36 *Impairment of Assets* 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.

***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?*

The NASB disagrees with the proposed amendment in the form it is drafted. In the view of the NASB members, in the case when cash flow projections are necessary to calculate fair value less costs to sell, it is inappropriate and useless simply to make a reference to the information to be disclosed when discounted cash flows are used to calculate value in use. The information used in the former case is different from information used in the latter. Indeed, paragraph 134(d) related to information to be disclosed when value in use estimation is used contains references to the entity's forecasts/budgets approved by management. Such forecasts/budgets describes cash flows to be received from the assets' or cash generating units' continuing use and their ultimate disposal at the end of the useful life. In the case of fair value less costs to sell, the information on net cash flows to be received from the assets' or cash generating units' disposal in its current state in an arm's length transaction between knowledgeable, willing parties is used. The NASB members note that only in some cases such proceeds are deferred to be received during more than one future reporting period, and hence, application of discounted cash flows method is necessary. However, even in such cases the information used will be different from that described in paragraph 134(d). Generally, fair value less costs to sell estimates cannot be received from internal budgets or forecasts approved by the entity's management, because fair value in comparison with value in use is generally not an entity specific value. Therefore, the NASB recommends reconsidering that issue and redrafting the proposed amendment. Moreover, the NASB believes that it may require additional analyses of the information users needs, and therefore, probably should be scoped out from the annual improvements project.

***Alternative view:***

Some of the NASB members had an alternative view on the issue under consideration. They proposed to modify the amendment proposed by the Board for paragraph 134 (e) as follows (new text is underlined, deleted text of Board's proposed amendment is struck through):

**'…(e) if the unit's (group of units') recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit (group of units), the following information shall also be disclosed:**

- **(i) a description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.**
- **(ii) a description of management's approach to determining the value or values assigned to each key assumption, whether those values reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.**
- **(iii) ~~If~~ if fair value less costs to sell is determined using discounted cash flow projections, the ~~disclosures required by (d) shall be given instead of those in (e)(i) and (ii).~~ timing of cash flows to be received from disposal based on internal and exter-**

**nal information available and the discount rate(s) applied to the cash flow projections.**

**(f) ...'**

**Proposed amendments to International Accounting Standard 38 *Intangible Assets***

**Advertising and promotional activities**
IAS 38 requires expenditure on advertising or promotional activities, training activities and start-up activities, and on relocating or reorganising part or all of an entity, to be recognised as an expense as incurred. Divergent interpretations have developed about when such expenses are incurred. This proposed amendment clarifies the meaning of 'as incurred' in this context. It also makes clear that an entity may recognise a prepayment for goods or services as an asset only until that entity has access to the goods or has received the services.

***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?*

The NASB disagrees with the proposed amendment and supports arguments provided by Mr. Leisenring regarding to expenditure on the supply of goods. The NASB members believe that by their nature such expenditures are related to tangible rather than intangible asset, and therefore, in the case of such expenditure the entity should determine whether supplied goods meet the definition of an asset. It may be guessed that in many cases due to specific purpose of such goods (i.e. catalogues, film strips and other informational materials), they will not meet the definition of an asset as their cost is unrecoverable. However, in other cases (for example when an entity orders for further distribution for promotional purposes pens, cases, notebooks, crystal vases and similar items labeled with the company's logo), the recoverability of expenditures may exist, and hence, they will meet the definition of an asset. Therefore, the NASB members agree with Mr. Leisenring's view that *'IAS 38 is not relevant for determining whether goods acquired by an entity and which may be used for advertising should be recognized as an asset'* and propose to make relevant corrections to the proposed amendments. At the same time, the NASB agrees with the proposed amendment stating that '*an entity should recognise expenditure on an intangible item as an expense when it has received the services'* on the grounds that such expenditure may neither be recovered as incurred, nor in accordance with existing requirements in IAS 38 be included in the cost of intangible items related to advertising and promotional activities.

The NASB members also note that the issue discussed in the proposed amendment appears to be of such significance, that it may be appropriate to exclude it from the scope of the annual amendments project.

***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?*

The NASB supports the proposed amendment as it agrees that in the case when entity pays for advertising goods or services in advance an the other party has not yet provided those goods or services, the entity actually has a different asset. This asset represents right to receive goods or services prepaid or prepaid amount itself and by its nature does not differ for example from prepayment for raw materials to be used in production of finished goods.

***Alternative view on issues in Questions 28(a) and (b):***

Some of the NASB members have alternative view on the issue under consideration. They believe that the current wording in IAS 38 is sufficiently clear stating that expenditure on advertising or promotional activities should be recognized as an expense as incurred. The meaning of 'as incurred' in their view unambiguously means 'as cash or other resources are transferred to counterparty', i.e. no prepayments paid or goods received in relation to those types of activities should be recognized as an asset. They are concerned that the approach proposed by the Board establishes rules that undermine the principle stated above and makes accounting for such expenditures more subjective and unjustifiably complicated.

**Unit of production method of amortisation**

The Board also proposes to amend IAS 38 by removing the last sentence of paragraph 98 which states: 'There is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets with finite useful lives that results in a lower amount of accumulated amortisation than under the straight-line method.' The Board has been informed that in practice the words 'rarely, if ever' in paragraph 98 are interpreted as 'never'. The project by the International Financial Reporting Interpretations Committee on service concessions highlighted situations where using the unit of production method of amortisation would be appropriate. However, where the expected pattern of consumption of the future economic benefits in the asset is weighted to the end of the asset's life, paragraph 98 is perceived as restricting an operator from using this method. The Board proposes an amendment to IAS 38 to resolve the issue.

***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?*

The NASB agrees with deletion proposed. We believe that it is very important that the method used to allocate depreciable amount of an asset be selected on the grounds of broad principle stating that a method to be applied should be selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset, rather than on the grounds rules based limitation that may be interpreted that straight line method should have a priority.

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

**Definition of a derivative**

The Board proposes to amend the definition of a derivative. The definition in IAS 39 excludes contracts linked to non-financial variables that are specific to a party to the contract. The proposed amendment would remove that exclusion. As a result, contracts linked to non-financial variables specific to a party to a contract within the scope of IAS 39 would be classified as derivatives. The Board proposes to amend the 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?*

The NASB members believe that proposed amendment may have significant effect on current practice and therefore should be thoroughly considered within the scope of separate amendments project rather than in the frame of annual amendments project.

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

The Board proposes to clarify in what circumstances specific financial instruments start or cease to be accounted for 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?*

The NASB agrees in principle with the proposed amendment, however, would like to draw attention of the Board to possible further improvements of the definitions of a financial instrument classified as held for trading proposed by us in our answer to Question 6.

***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?*

The NASB agrees with the proposed amendment as it fills existing gap concerning classification of when derivatives start or cease to be a designated and effective hedging instrument. As long as IAS 39 explicitly specifies only four categories of financial instruments, designation of financial instruments from any of the specified categories as an effective hedging instrument or cease of such designation technically is not a reclassification, and therefore, paragraph 50A introduced by the amendment in our view is useful.

**Designating and documenting hedges at the segment level**

The Board proposes to remove the apparent conflict between paragraph 73 and the requirements of IFRS 8 *Operating Segments*.

***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?*

The NASB agrees that there is a conflict between two individual IFRSs, and therefore, supports the proposed amendment that eliminates it.

**Applicable effective interest rate on cessation of fair value hedge accounting**

The Board proposes to clarify that the effective interest rate calculated on cessation of fair value hedge accounting in accordance with paragraph 92 should be used to remeasure the hedged item when paragraph AG8 applies.

***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?*

The NASB agrees with the proposed amendment as it eliminates apparent inconsistency.

**Treating loan prepayment penalties as closely related embedded derivatives**

The Board proposes to remove an inconsistency between paragraphs AG30(g) and AG33(a) with respect to embedded prepayment options. The proposed amendment clarifies that prepayment options, the exercise price of which compensate 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.

***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?*

The NASB agrees with the proposed amendment, as it eliminates existing inconsistency and clarifies how to account for embedded prepayment options, the exercise price of which compensate the lender for loss of interest by reducing the economic loss from reinvestment risk.

**Proposed amendments to International Accounting Standard 40 *Investment Property***

**Property under construction or development for future use as investment property**

The Board proposes to remove an inconsistency within IAS 40. At present, if an existing investment property is redeveloped, the property is accounted for using IAS 40. However, if a property is purchased for the purpose of constructing or developing a future investment property, the property is within the scope of IAS 16 *Property, Plant and Equipment* until it is complete. The Board proposes to remove from the scope of IAS 16 property under construction or development for future use as an investment property and to include it within the scope of IAS 40. As part of these amendments, such property will be within the definition of investment property. As a result, where an entity uses the fair value model in IAS 40, changes in the fair value of such property will be included in the statement of comprehensive income. The Board proposes consequential amendments to IAS 16 in respect of this issue. The proposed consequential amendments to IAS 16 are included in the IAS 16 chapter of this exposure draft.

***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?*

The NASB agrees that inconsistency of accounting for the redevelopment of an existing investment property and the construction or development of a future investment property exists. Moreover, the NASB members believe that both redeveloped and newly developed (or constructed) properties to be used by an entity as an investment property in the future have the same economic nature, and therefore, should be classified as investment property in the entity's balance sheet. The NASB also agrees that the use of fair values has become more widespread recently, and valuation techniques have become more robust. Although it is not always the case for developing or emerging markets, the NASB members believe that currently many entities have capacity to produce reliable estimates of the fair values of the property being developed or constructed. At the same time, entities from developing or emerging markets may select cost model of accounting for such investment property assets. Therefore, the NASB supports the proposed amendment.

**Consistency of terminology with IAS 8**

The Board proposes to amend paragraph 31 of IAS 40 to ensure consistency with the text of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

***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?*

The NASB agrees with the proposed amendment.

**Investment property held under lease**

The Board proposes to amend IAS 40 to make clear how an investment property under lease should be recorded.

***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?*

The NASB agrees with the Board that current statement in paragraph 50(d) is 'misleading because it implied that the fair value of an investment property asset held under a lease was equal to the net fair value plus the carrying amount of any recognized lease liability', and therefore, supports the proposed amendment in principle. However, it may be noted that the amended part and unchanged parts of paragraph 50 still need their readability to be improved and ambiguity to be eliminated. We believe that it may be achieved by introducing clear distinction in the text between the terms 'carrying amount' of an investment property and its 'fair value'. Mixing those terms may lead to misinterpretations. For example, when the standard refers to an office leased on a furnished basis, a distinction should be made between two fair values involved and currying amount of the investment property described as 'furnished office'. The fair value of a furnished office considered as a whole to be recognised as its currying amount equals to the sum of fair values of furniture and the office. Similarly, in the case of investment property held under a lease, distinction should be made between two fair values considered, i.e. fair value of the property and fair value of related lease liability: and carrying amount of investment property described as 'investment property held under a lease'. The carrying amount of the latter equals to the difference between fair value of investment property and fair value of related lease liability, and may be presented in net (where fair value of investment property held under lease is presented after deduction of fair value of related liability) or in gross (where fair value of property and fair value of liability are presented separately). In the latter case, the amount presented as carrying amount of leased investment property will reflect fair value of this property before deduction of fair value of related liability. We understand that this was the intention of the Board when it proposed to amend paragraph 50(d). In view of the foregoing, we propose new wording for paragraph 50 as a whole, which in our view will clarify the meaning of the Standard and will make it more readable, especially when translated from English into other languages ((new text is underlined, deleted text of Board's proposed amendment is struck through):

'50 In determining the fair value of investment property <u>to be recorded as its carrying amount under the fair value model</u>, an entity does not double-count assets or liabilities that are recognised as separate assets or liabilities. For example:

(a) equipment such as lifts or air-conditioning is often an integral part of a building, therefore its fair value is generally included in the fair value of the investment property <u>and hence in its carrying amount</u>, rather than recognised separately as property, plant and equipment.

(b) if an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental income relates to the furnished office. When <u>fair value of</u> furniture is included in the fair value of investment property and hence <u>in its currying amount</u>, an entity does not recognise that furniture as a separate asset.

(c) the fair value of investment property <u>and its</u> <u>carrying amount</u> exclude prepaid or accrued operating lease income, because the entity recognises it as a separate liability or asset.

(d) the fair value of investment property held under a lease reflects any related lease liability, i.e. expected cash outflows (including contingent rent that is expected to become payable). ~~Accordingly~~ However, if a valuation obtained for a property is net of all payments expected to be made and at the same time related lease liability is recognized separately, it will be necessary in order to prevent double-counting, to add back this liability, to arrive at the fair value ~~carrying amount~~ of the investment property to be recognised as its carrying amount ~~using~~ under the fair value model.'

**Proposed amendments to International Accounting Standard 41 *Agriculture***

**Point-of-sale costs**

IAS 41 requires a biological asset to be measured at its fair value less estimated point-of-sale costs unless its fair value cannot be measured reliably. The term 'point-of-sale costs' is not used in other IFRSs. The Board proposes to replace 'point-of-sale costs' with 'costs to sell'. This amendment would make IAS 41 consistent with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 36 *Impairment of Assets*. The Board proposes consequential amendments to IFRS 5, IAS 2 *Inventories* and IAS 36 in respect of this issue. The proposed consequential amendments to IFRS 5, IAS 2 and IAS 36 are included in the respective chapters of this exposure draft.

***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?*

The NASB does not support the proposed amendment as it does not believe that 'costs to sell' and 'point-of-sale costs' always have the same meaning. 'Costs to sell' are defined by the Board in proposed amendment to IAS 41 as '*incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense'*. Similar definitions were already included in IAS 36 (as 'costs of disposal') and IFRS 5 ('costs to sell'). 'Point-of-sale costs' have never been defined within IFRS. However, paragraph 14 of the current version of IAS 41 states that such costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties but ***exclude transport and other costs necessary to get asset to a market***. In its turn, paragraph 28 of IAS 36 describes costs of disposal as costs that ***include*** legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and ***direct incremental costs to bring an asset into condition for its sale,*** but ***exclude*** termination benefits (as defined in IAS 19) and costs associated with reducing or reorganising a business following the disposal of an asset. Therefore, transport costs are not specifically excluded from 'costs of disposal', being equivalent to 'costs to sell'. In addition to that, in BC 4 on proposed amendments to IAS 41, the Board states that '*the word 'incremental' in the definition of 'costs to sell' excludes costs included in fair value measurement of a biological asset such as transport costs*'. In our view, it differs from generally accepted meaning of 'incremental costs' that usually are interpreted as 'cost associated with one additional unit'. Transport costs are associated with any additional unit to be sold, and therefore, should be considered incremental. Alternatively, it is unclear how transport costs are to be included in fair value of an asset, because they may be incurred both by seller and buyer, which would result in two different fair values for the seller, because fair value represents an amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties. In the case when the seller pays for transportation, an amount obtainable form the buyer will be reasonably greater than in the case when transport costs are incurred by the buyer. We understand that in the case of biological assets and agricultural produce, it may be an explicit intention of the Board to include transport costs in fair value measurement, but we are not sure that the same is true for fair value measurements under IFRS 5 or IAS 36. Therefore, we propose to retain 'point-of-sale costs' term at this time and recommend the Board to clarify the meaning of 'costs to sell' and 'incremental costs' in relevant IFRS context. In our view, it would be more appropriate to do this within a separate amendment project, rather than within the annual improvements process.

In addition, having found that there appears to be no real differences between 'costs of disposal' and 'costs to sell' terms within individual IFRSs, we recommend to replace in IAS 36 the former with the latter, as it would provide better consistency within IFRSs and remove possible confusion as a result of describing the same things with different words.

**Discount rate for fair value calculations**
The Board also proposes to remove a requirement that the discount rate used to determine fair value should be a pre-tax rate. The proposed amendment requires a current market-determined rate to be used, but permits this to be a pre-tax or post-tax rate according to the valuation methodology used to determine fair value.

***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?*

The NASB agrees with the proposed amendment, as it believes that it is not necessary to restrict an entity from the application of different valuation methodologies that can provide reliable estimates of fair value.

**Additional biological transformation**
The Board also proposes to remove the prohibition on taking 'additional biological transformation' into consideration when calculating fair value using discounted cash flows.

***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?*

The NASB agrees with the proposed removal in principle. However, we believe that some additional clarification is necessary. In our view, when discounted cash flows methodology is used to determine substitute of the fair value determined by reference to the active market price for an asset, the valuation arrived to is closer by its nature to 'value in use' estimate rather than to 'fair value' estimate as it is defined. Therefore, when estimating future net cash flows, the entity shall take into account only such biological transformation potential that exists for biological asset in its present location and condition. Any increases in cash flows from possible future activities of the entity, such as those related to enhancing the future biological transformation, should not be included in valuation. Thus, we propose to add the following sentence at the end of amended paragraph 21:

'….At that any increases in cash flows from possible future activities of the entity, such as those related to enhancing the future biological transformation, should not be included in valuation.'

In addition to that, the NASB does not support proposed amendment to 'biological transformation' definition. In our view, 'harvest' as it defined in IAS 41 is an act of cessation of biological transformation rather than one of its types.

**Minor wording improvements: examples of agricultural produce and products**
The Board also proposes to revise the examples of agricultural produce and products that are the result of processing after harvest.

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

The NASB agrees with the proposed amendment.