Ref: 410-010 / #95429

SECURITIES COMMISSION SUBMISSION ON ED *PROPOSED IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS* (ED)

General comments

1. The Securities Commission supports the work of the IASB in seeking to develop and publish high quality International Financial Reporting Standards (IFRSs). To this extent, the Securities Commission supports the IASB's objective for the Annual Improvements Project to provide a streamlined process for dealing efficiently with a collection of miscellaneous, non-urgent but necessary amendments to IFRSs. We consider that this is an efficient manner by which to improve the quality of IFRSs. We prefer that the IASB amends IFRSs directly where such issues arise rather than leaving the International Financial Interpretations Committee (IFRIC) to address them with the resultant proliferation of Interpretations or having IFRIC reject the issues for being too "minor".

2. The Securities Commission, like other similar market regulators, has an interest in ensuring that markets receive all material and relevant information so that market participants are not misled. We consider IFRSs that are internally consistent and consistent between themselves (whether in terms of terminology or requirements) prevent misapplication and misinterpretation of their requirements. Consistency in IFRSs should result in better quality information being reflected in financial statements, to the benefit of users of financial statements. To this extent, we support those proposals in the ED that are intended to clarify current requirements, rectify inconsistent requirements and/or rectify inconsistent terminology.

3. However, we note that some proposed amendments in the ED introduce new requirements, for example:

   (a) IAS 1 *Presentation of Financial Statements* in relation to the statement of compliance with IFRSs;
   (b) IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* in relation to accounting for loans from government with below market rate of interest;
   (c) IAS 36 *Impairment of Assets* in relation to disclosure of estimates used to determine recoverable amount; and
   (d) IAS 40 *Investment Property* in relation to property under construction or development for future use as investment property

4. While we do not necessarily disagree with all the proposals in the ED relating to the new requirements, and while we recognise that some changes to Standards need to be implemented quickly, we consider that proposals that introduce new requirements generally should not form part of the IASB's Annual Improvements Project. We consider that proposals that introduce new requirements should be subject to a

separate due process so that the significance and effect of such proposals may be better highlighted to constituents. In addition, there should be a fuller discussion to support such proposals in the Basis for Conclusions.

5. We are also not in favour of amendments that introduce rules in Standards to deal with specific issues or create exceptions from existing requirements or principles. We prefer Standards that they can be applied by all entities undertaking similar transactions and similar transactions can be accounted for in the same way. We note that the following proposed amendments appear to be rules-based or create exceptions to existing requirements or principles:

   (a) IAS 1 *Presentation of Financial Statements* in relation the current/non-current classification of convertible instruments; and
   (b) IAS 16 *Property, Plant and Equipment* in relation to sale of assets held for rental.

6. Our responses to the questions from the IASB Discussion Papers follow.

Responses to IASB questions

Proposed amendments to International Financial Reporting Standard 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. We consider it important that IFRS 1 be capable of being applied by all entities regardless of when they transition to IFRSs.

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

Question 2
Do you agree with the proposal to add paragraph 8A to IFRS 5 to clarify that assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary? If not, why?

We agree with the proposal to add paragraph 8A to IFRS 5 to clarify that all 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, regardless of whether the entity will retain a non-controlling interest. We agree that being committed to a plan involving the loss of control should trigger the classification as being held for sale. We consider that this is consistent with the classification in IFRS 5.

Consequential amendment from IAS 41
Point-of-sale costs
The Board also proposes to amend paragraph 5(e) of IFRS 5 as a consequence of its proposed amendments to IAS 41 *Agriculture* relating to the use of the term 'point-of-sale costs'.

We agree with the proposal to amend paragraph 5(e) of IFRS 5 as a consequence of its proposed amendments to IAS 41 relating to the use of the term 'point-of-sale costs'.

Proposed amendments to International Financial Reporting Standard 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 agree with the proposal to amend paragraph IG13 of the guidance on implementing IFRS 7 to resolve the potential conflict with IAS 1. We agree that by indicating that total interest income and total interest expense disclosed in accordance with paragraph 20(b) might be a single component of finance costs, the guidance in paragraph IG13 is potentially in conflict with the requirements of IAS 1.

Consequential amendment from IAS 28 and IAS 31
Disclosure requirements for investments in associates and interests in jointly controlled entities accounted for at fair value through profit or loss
The Board also proposes to amend paragraph 3 of IFRS 7 as a consequence of its proposed amendments to IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures* relating to the disclosure requirements for investments in associates and interests in jointly controlled entities accounted for at fair value through profit or loss.

We agree with the proposal to amend paragraph 3 of IFRS 7 as a consequence of the proposed amendments to IAS 28 and IAS 31 relating to the disclosure requirements for investments in associates and interests in jointly controlled entities accounted for at fair value through profit or loss.

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?

The Commission supports the IASB's aim of issuing one set of high quality financial reporting standards for profit-oriented entities for use by all jurisdictions. However, we are not sure if the IASB's proposal achieves its purpose.

Paragraph 16 of IAS 1 (2007) requires an entity whose financial statements comply with IFRS to make an explicit and unreserved statement of such compliance in the notes. Financial statements are not to be described as complying with IFRS unless they comply with all the requirements of IFRS.

The paragraph 16 statement of compliance is unequivocal. We consider that, implemented correctly, this statement is sufficient to differentiate an entity that complies fully with all the requirements of IFRS from one that does not. A user should be on the alert if a set of financial statements contains any statement other than an explicit and unreserved statement of such compliance.

To require an entity that is unable to make an unreserved statement of compliance with IFRS to describe how its financial statements would have been different if prepared in full compliance with IFRS may bring into question the reliability and usefulness of the paragraph 16 assertion. Notwithstanding the proposal, if an entity does not implement or apply IFRS correctly, any assertion or any other additional information is unlikely to increase the reliability of the financial statements or their compliance with IFRS. In addition, we think that an entity that has not complied with IFRS in the first place is unlikely to disclose their areas of non-disclosure. We would be reliant on auditors to satisfactorily police this.

The IASB's purpose for the proposal is to alert users to differences between a national-based IFRS GAAP and IFRS. However, the proposal as it is currently worded, does not seem to differentiate an entity that is unable to make the unequivocal statement of compliance because its national-based IFRS GAAP is different from IFRS from an entity that is unable to make the statement because it has departed from IFRS even though its national-based IFRS GAAP is the same as IFRS. As such, we consider that if the IASB is to proceed with the proposal, it should reword the proposed requirement so that it only captures differences between a national-based IFRS GAAP and IFRS. Auditors should pick up the departures from IFRS in those instances where an entity's national-based IFRS GAAP is the same as IFRS.

We see this as an implementation issue for preparers and auditors to ensure that where the unequivocal statement required by paragraph 16 of IAS 1 is made, it is factual. We also consider that it is an educational issue for users to be alert to differences between national IFRS GAAP and IFRS where the unequivocal statement of compliance with IFRS required by paragraph 16 of IAS 1 has not been made. Moreover, we consider that it is the role of auditors to ensure that if any paragraph 16 statement is made, there has been full compliance with IFRS.

Current/non-current classification of convertible instruments

Question 5
Do you agree with the proposal to clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current? If not, why?

We disagree 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. We consider that this effectively creates an exception to the manner in which an obligation is considered to be "settled" in paragraph 62 of the *Framework* (which is clear that the term "settled" includes conversion of a liability into equity). In the absence of a wider review of whether this will also raise issues in other Standards, we are not in favour of such a specific change within IAS 1. The proposal would raise an inconsistency between how the term "settled" is applied in IAS 1 (and possibly in other Standards) compared to its meaning in the Framework. We suggest that this issue be dealt with in the context of the Conceptual Framework project rather than on an ad hoc basis.

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 to remove the potential implication that financial assets and financial liabilities that are classified as held for trading in accordance with IAS 39 are required to be presented as current. We agree that, based on the definition of "held for trading", while most financial assets and financial liabilities classified as such might be classified as current, the criteria set out in paragraph 69 of IAS 1 should be used to assess whether a financial asset or a financial liability should be classified as current or non-current.

Consequential amendment from IAS 41
Point-of-sale costs
The Board proposes to amend IAS 2 *Inventories* as a consequence of its proposed amendments to IAS 41 *Agriculture* relating to the use of the term 'point-of-sale costs'.

We agree with the proposal to amend IAS 2 as a consequence of the proposed amendments to IAS 41 relating to the use of the term 'point-of-sale costs'.

Consequential amendment from IAS 16
Sale of assets held for rental
The Board proposes to amend IAS 7 *Statement of Cash Flows* as a consequence of its proposed amendments to IAS 16 *Property, Plant and Equipment* relating to the sale of assets held for rental.

Subject to our comments in Question 10, we agree with the proposal to amend IAS 7 as a consequence of its proposed amendments to IAS 16 relating to the sale of assets held for rental.

Proposed amendments 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 proposal to amend paragraphs 7, 9 and 11 of IAS 8 to clarify the status of implementation guidance as non-mandatory.

Proposed amendment 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 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.

<u>Proposed amendments to International Accounting Standard 16 *Property, Plant and Equipment*</u>

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 to remove the perceived inconsistency with ‘recoverable amount’ used in other IFRSs.

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?

In principle, we agree with proposal to amend paragraph 68 of IAS 16 and paragraph 14 of IAS 7 to address presentation issues arising from assets held for rental to others that are routinely sold in the course of an entity’s ordinary activities.

However, we suggest that the IASB considers whether this amendment could be achieved and presented as a principle that applied to all entities and all assets that are intended at the outset to be routinely sold in the course of an entity’s ordinary activities, regardless of its initial use, rather than merely making a rules-based amendment that is limited to entities that deal with assets held for rental to others that are routinely sold in the course of an entity’s ordinary activities.

Consequential amendment from IAS 40 *Property under construction or development for future use as investment property* The Board also proposes to amend IAS 16 as a consequence of its proposed amendments to IAS 40 *Investment Property* relating to property under construction or development for future use as investment property.

Subject to our comments to Question 35, we agree with the proposal to amend IAS 16 as a consequence of its proposed amendments to IAS 40 relating to property under construction or development for future use as investment property.

<u>Proposed amendments to International Accounting Standard 17 *Leases*</u>

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 agree with the proposal to amend paragraphs 14 and 15 of IAS 17 to eliminate a perceived inconsistency between the specific classification guidance for leases of land and buildings and the general lease classification guidance in IAS 17. We agree that the substance of the transaction should determine the lease classification of land and buildings.

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 proposal that contingent rent relating to an operating lease should be recognised as incurred. We agree that this allows for the consistent treatment of contingent rent in finance and operating leases.

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 proposal to amend 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. We agree that costs that are permitted to be deferred should be defined in a consistent manner between the 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 proposal to amend IAS 19 to clarify that when a plan amendment reduces benefits for future service, the reduction relating to future service is a curtailment and any reduction relating to past service is negative past service cost. We agree that a clearer distinction between the types of costs will reduce inconsistent treatment by entities.

Question 14(b)
Do you agree that the Board should delete the following sentence from paragraph 111 of IAS 19: ‘An event is material enough to qualify as a curtailment if the recognition of a curtailment gain or loss would have a material effect on the financial statements.’? If not, why?

We agree with the proposal to delete the sentence from paragraph 111 of IAS 19 relating to materiality. We agree it is unnecessary.

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 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. We agree it will reduce the risk of double-counting.

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 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.

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 proposal to remove the reference in IAS 19 to recognising contingent liabilities. We agree that the existing wording is inconsistent with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

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 agree with the proposal to conform terminology used by IAS 20 to the equivalent defined or more widely used terms.

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 to require 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. We agree that the imputation of interest will provide 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 agree with the proposal to amend paragraph 6 of IAS 23 to refer to the guidance in IAS 39 relating to effective interest rate when describing the components of borrowing costs. We agree that components of borrowing costs should, to the greatest extent possible, be consistent between Standards.

International Accounting Standard 27 *Consolidated and Separate Financial Statements*

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 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). We agree with the proposal to align the accounting for these investments with the accounting for other assets that are accounted for at fair value before classification as held for sale.

<u>Proposed amendments to International Accounting Standard 28 *Investments in Associates*</u>

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 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. We agree that the disclosures are useful and should be made by entities.

Impairment of investments in associates

Question 23
Do you agree with the proposal to amend paragraph 33 of IAS 28 to clarify the circumstances in which an impairment charge against an investment in an associate should be reversed? If not, why?

We agree 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. We agree that the investment in the associate should be treated as a single asset for impairment testing, consistent with the principle in paragraph 33 of IAS 28.

<u>Proposed amendments to International Accounting Standard 29 *Financial Reporting in Hyperinflationary Economies*</u>

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 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.

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

Question 25 Do you agree with the proposal to clarify the disclosures required of a venturer in a jointly controlled entity that accounts for its interest in the jointly controlled entity at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss? If not, why?

We agree with the proposal to clarify the disclosures required of a venturer in a jointly controlled entity that accounts for its interest in the jointly controlled entity at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss. We agree that the disclosures are useful and should be made by entities.

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 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. In adopting IAS 33 as NZ IAS 33 *Earnings per Share* in New Zealand, an equivalent clarifying statement was included in NZ IAS 33.

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

We agree with the proposal to amend paragraph 134(e) of IAS 36 to require the same disclosures to be given for fair value less costs to sell as are required for value in use when discounted cash flows are used to calculate fair value less costs to sell. We agree that the same disclosures should be made when a similar methodology (discounted cash flows) is used to determine recoverable amount for fair value less costs to sell and for value in use.

Consequential amendment from IAS 41
Point-of-sale costs
The Board also proposes to amend paragraphs 2 and 5 of IAS 36 as a consequence of its proposed amendments to IAS 41 *Agriculture* relating to the use of the term 'point-of-sale costs'.

We agree with the proposal to amend paragraphs 2 and 5 of IAS 36 as a consequence of its proposed amendments to IAS 41 relating to the use of the term 'point-of-sale costs'.

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 consider that this issue deals with different stages of advertising and promotional activities – the purchase of the goods and services for use in the activities (which, in some cases, may result in a prepayment), the receipt of the goods and services and the use of the goods and services. Advertising or promotional activities may potentially create further benefits to the entity.

We agree that any potential benefit that may arise from advertising and promotional activities should not be recognised as an asset. We also agree with the IASB's proposal that an entity recognises a prepayment for the goods or services as an asset only until that entity has access to the goods or has received the services.

However, we do not agree with the IASB's proposals to prohibit an entity from recognising, as an intangible asset, goods and services it receives for use in advertising or promotional activities prior to those goods and services being used in advertising and promotional activities. We also do not agree with the proposal that an entity recognises such expenditure as an expense when it has access to the goods or when it receives the services. In addition, we consider that IAS 38 should only deal with services and not with goods acquired for advertising and promotional activities. We deal with each of these below.

Non-recognition of intangible assets
In this proposal, the IASB has bundled any potential benefit arising from the advertisement or promotional activity with the benefit or rights to goods and services acquired for use in advertising or promotional activities. We consider that any potential benefit arising from advertising or promotional activities is a separate intangible asset from the asset that the entity acquires when it acquires goods or services for use in advertising or promotional activities.

We consider that an entity that acquires goods and services acquires benefits or rights to those goods and services which are separate from the potential benefits arising from the advertising and promotional activities. In terms of services, the intangible asset that is to be recognised is the right to those services where they have been acquired but have not been "consumed" or used in the advertising or promotional activities. As such, we do not agree with the IASB's proposal to prohibit the recognition, as an intangible asset, services it receives in respect of advertising or promotional activities.

Recognition of advertising and promotional expenditure

In relation to services acquired, we consider that the term "*as incurred*" should faithfully represent the point in time when those services are consumed or used. Where an entity acquires a service and uses it immediately in an advertisement or promotional activity, such expenditure should be expensed immediately. At that point, the expenditure was incurred as the service was both received and consumed.

However, it may be that the service received relates to a series of advertisements or promotional activities which run over several accounting periods. It does not seem appropriate or a faithful representation of the transaction if the related expenditure is expensed when such services are received. In this situation, an intangible asset has been created and the related expenditure should be expensed as the service is consumed ie when the advertisement or promotional activity is delivered to customers or potential customers.[1]

As such, we do not agree with the IASB's proposal to require the expenditure related to such services to be expensed on receipt of the services. Instead, we recommend that entities be required to captialise such expenditure. The resulting asset would be amortised as and when those services are consumed.

Scope of IAS 38

We agree with the IASB member's dissenting view that, as IAS 38 is the Standard for intangibles, it is not the Standard to determine whether goods (tangible assets) acquired by an entity for advertising and promotional activities may be recognised as assets. Whether goods acquired for use in advertising and promotional activities meet the definition for an asset should be dealt with in accordance with other IFRS dealing with tangible assets. IAS 38 should only deal with services acquired in relation to advertising and promotional activities. To this extent, we suggest that IAS 38 deals only with services acquired for advertising and promotional activities.

Question 28(b)

Do you agree that paragraph 70 of IAS 38 should be amended to allow an entity to recognise a prepayment only until it has access to the related goods or has received the related services? If not, why?

We agree with the proposal to amend paragraph 70 of IAS 38 to allow an entity to recognise a prepayment only until it has access to the related services. We agree that the prepayment represents a separate asset from the potential benefit to be derived from the advertising and promotional activities. However, as stated in our response to Question 28(a) above, we do not

[1] Notwithstanding our comment that IAS 38 should not deal with goods acquired in relation to advertisements and promotional activities, the point is easier to illustrate with goods or tangible assets. In cases where catalogues or other tangible promotional material have been acquired that relate to a series of campaigns over many accounting periods, we consider that the entity has acquired assets when these are delivered to the entity and the entity has control over those assets. The expense relating to those assets should be incurred as the assets are consumed, ie. as they are delivered to customers or potential customers for each campaign.

consider that IAS 38 should deal with goods acquired in relation to advertising and promotional activities.

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 proposal to remove the last sentence of paragraph 98 of IAS 38 regarding the amortisation method used for intangible assets to make it clear that entities may use the unit of production method of amortisation even when it results in a lower amount of accumulated amortisation than does the straight-line method.

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 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. We agree that the condition is unnecessary in determining whether a contract is within the scope of 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 proposal to amend IAS 39 to clarify the definitions of a financial instrument classified as held for trading. We agree that the proposal clarifies that the intent of the Standard is that designation of a non-derivative financial instrument that is traded as part of a portfolio can qualify for the available for sale category only if it is included in the portfolio on initial recognition.

Question 31(b)
Do you agree with the proposal to insert in IAS 39 paragraph 50A to clarify the changes in circumstances that are not reclassifications into or out of the fair value through profit or loss category? If not, why?

We agree with the proposal to insert paragraph 50A in IAS 39 to clarify the changes in circumstances that are not reclassifications into or out of the fair value through profit or loss category. We agree that the prohibition in paragraph 50 should not prevent a derivative from being accounted for at fair value through profit or loss when it does not qualify for hedge accounting and vice versa.

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 proposal to amend paragraph 73 of IAS 39 to remove the references to segments and segment reporting. We agree that the reference conflicts with the requirements of IFRS 8 *Operating Segments*.

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 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.

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 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.

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 agree with the proposal to include property under construction or development for future use as an investment property within the scope of IAS 40. We agree that this better aligns the accounting for such development properties with the accounting for the redevelopment of an existing investment property.

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 proposal to conform terminology used in paragraph 31 of IAS 40 to the terminology used in IAS 8. We agree the proposal ensures consistency with IAS 8.

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 proposal to amend paragraph 50(d) of IAS 40 to clarify the accounting for investment property held under a lease. We agree that the appropriate term in the paragraph should be “carrying value” rather than “fair value”.

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 agree with the proposal to replace the terms ‘point-of-sale costs’ and ‘estimated point-of-sale costs’ in IAS 41 with ‘costs to sell’. We agree that, ideally, ‘point-of-sale costs’ in IAS 41 should be the same as ‘costs to sell’ in IFRS 5 and IAS 36.

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 proposal to amend 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.

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 agree with the proposal to remove the exclusion of 'additional biological transformation' from paragraph 21 of IAS 41. We agree that the entity should consider the risks associated with cash flows from additional biological transformation in determining the discount rate.

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 by replacing logs with 'felled trees'.

Consequential amendment from IAS 20
Consistency of terminology with other IFRSs
The Board also proposes to amend IAS 41 as a consequence of its proposed amendments to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* relating to the updating of the terminology used in IAS 20.

We agree with the proposal to amend IAS 41 as a consequence of its proposed amendments to IAS 20 relating to the updating of the terminology used in IAS 20.