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International
Accounting Standards
Board

INFORMATION FOR OBSERVERS

Board Meeting:	**Wednesday 20 February 2008, London**
Project:	**ED Annual improvements process–Comment analysis**
Subject:	**Summary of preliminary analysis and project plan (Agenda Paper 4B)**

INTRODUCTION

1. The purpose of this agenda paper is to summarise the preliminary analysis of the comments received on the ED. The analysis highlights the proposed amendments that the staff believe the Board can deliberate now, so that the Board can issue final amendments within its intended timetable.

2. The staff ask the Board to consider the main points raised in the comment letters and as a result:

   (a) approve the initial staff assessment of proposed amendments;

   (b) affirm the redeliberation objectives; and

   (c) approve the staff's project plan

OVERVIEW OF COMMENTS RECEIVED

3. Agenda paper 4C contains a full list of respondents to the invitation to comment and a breakdown of respondent categories by type and geography.

4. The following paragraphs summarise the main general comments received. This summary is not a comprehensive list. During the redeliberations, the staff will incorporate and expand on the comments as we present the relevant agenda papers to address these issues more fully.

Summary of general comments

5. Nearly all respondents support the Board's objective of providing a streamlined approach to dealing with miscellaneous non-urgent, necessary but minor amendments that are improvements to IFRSs. However, many question whether the proposed amendments and the process in its current form meet the objective as stated in the ED. The main themes of concerns raised from general comments received are:

   (a) scope

   (b) early adoption and transitional provisions

   (c) consequential amendments

   (d) due process and procedures

   (e) other issues.

6. These comments are discussed in more detail below.

Scope

7. Many respondents observe that the ED included a large number of amendments, and comment that the amendments range from minor editorial changes to new requirements that are not the correction of inconsistencies or technical errors. Many also point out that while some amendments are narrow or detailed changes that border on rules and exceptions from principles, others are complex or broader issues that are currently not addressed in any IFRSs.

8. Respondents expressed varying levels of concern on whether 22 of the 41 proposed amendments should be included in the scope of the AIP. The four that attracted the least support and the most objection to their inclusion in the improvements project are:

(a) Statement of compliance with IFRS (IAS 1) - 66 respondents, of which 42 did not support, and 23 object to inclusion

(b) Definition of a derivative (IAS 39) - 61 respondents, of which 33 did not support, and 28 object to inclusion

(c) Advertising and promotional activities (IAS 38) - 57 respondents, of which 25 did not support, and 21 object to inclusion

(d) Classification of leases of land and buildings (IAS 17) - 56 respondents, of which 15 did not support, and 14 object to inclusion

9. The preliminary numerical analysis above has not considered respondents who support the Board's intention in principle but express concerns about such matters as ambiguity or the creation of inconsistencies with other IFRSs. Many respondents also state in general that some of the proposed amendments are beyond the scope of the project. However, they did not identify the amendments specifically either because of unspecified reasons or because they supported the end results. The staff will bring separate analysis to the Board for these issues in accordance with the project plan, which is discussed later in this agenda paper.

10. While respondents acknowledge the advantage of not having to deal with minor amendments on a piecemeal basis, they are also concerned that collecting too many proposed amendments to too many IFRSs in one ED risks issues not receiving adequate attention.

11. Some respondents also acknowledge that assessing whether a specific amendment is minor is somewhat subjective. This is evident from the comment letters received because, in general, respondents have provided a wide range of views about what should or should not be in the scope of this process.

12. For example, while 'improvements' include those that rectify inconsistent requirements and terminology, some of the changes are viewed as being minor editorial changes that need not be exposed for comment. On the other hand, 'improvements' can also include amendments that clarify existing requirements or confirm the Board's original intention. If some of these 'other

changes' will affect existing practice, respondents also question whether they, along with amendments that are 'new requirements', should not be subject to the same due process as a major amendment of an IFRS.

13. In addition, respondents are mindful that eliminating all imperfections in IFRSs requires resources. They caution that numerous minor amendments to address these shortcomings will obscure the need for more fundamental revisions and that an amendment that appears to be innocuous could have wider, unintended, consequences.

14. Many suggest that the Board, based on experience from this first set of annual improvements, should reconsider whether the right balance is struck between 'editorial changes', 'improvements', and 'other changes', and whether each of these types of changes is given the appropriate due process for comments. Otherwise, some respondents suggest that the costs to both the Board and its constituents in developing, reviewing, endorsing, translating and promulgating the changes to be implemented may outweigh the perceived benefit of improvement.

15. Subject to the Board's reconsideration of the appropriate scope for amendments, most respondents support the practice of bringing forward groups of sufficiently important but relatively minor amendments in a single exposure draft.

16. The staff will present a separate agenda paper with a full analysis and recommendation about this issue for future improvements after the Board has deliberated and issued the final amendments from this first process.

Early adoption and transitional provisions

17. Nearly all respondents who comment on these issues disagree with the early adoption and transitional provisions proposed in the ED. The Board considered and decided on these issues at its meeting in July 2007.

18. At that meeting, the Board discussed whether to address specific early adoption and transition provisions amendment by amendment; or to take a simpler approach of adopting all amendments from annual improvements at

the same time, and if early adopting, adopting all together. The Board decided on the simpler approach.

19. Therefore, the ED has no specific transition provisions, requiring retrospective application of all changes. The ED also proposed that early adoption of any specific amendments should be conditional on the early adoption of:

(a) all the proposed amendments from this improvements project; and

(b) IAS 1 *Presentation of Financial Statements* (as revised in 2007).

20. Respondents give various reasons for their disagreement with the proposed requirements, as summarised below.

21. Respondents point out that when amendments are made to individual IFRSs outside the annual improvements process, even if several IFRSs are amended during the same period, early adoption and transition provisions are selected case by case. They see the ED as a collection of separate issues bundled together for efficiency and believe that these relevant requirements should not take a more restrictive approach.

22. They also comment that not all the amendments are changes in accounting policy as described in IAS 8. Some of the amendments are meant to 'clarify' wording or confirm the Board's original intentions. In these circumstances, there has not been a change in the IFRS and an effective date is, it is argued, redundant. Some even argue that the amendments warrant immediate adoption rather than deferral to the proposed effective date of 1 January 2009, and that early adoption should not be precluded.

23. Most respondents say that the ED and its Basis for Conclusions lack sufficient link between the majority of the proposed amendments and IAS 1 (revised 2007). They feel that, because the proposed amendments vary in complexity and some will be more difficult or burdensome than others for entities to adopt, precluding early adoption of some changes until entities can address all other changes goes against the objective of encouraging high quality, consistent application of IFRSs.

24. Similarly, in the absence of specific transition provisions, the default implementation guidance in paragraph 19(b) of IAS 8 requires retrospective application for all these changes. Although retrospective application may seem appropriate for amendments that clarify the Board's original intentions, some of the amended IFRSs require prospective application in their original transition provisions. On the other hand, adding a new requirement or changing a previous one could either be a 'clarification' or a 'change' from the Board's original intentions. Again, retrospective application may not always be appropriate for new requirements.

25. Many respondents also point out circumstances when it is burdensome or impracticable to apply the amendments retrospectively. These circumstances include, but are not limited to, reviewing all leasing and derivative contracts for classification or applying a different fair value measurement definition.

26. Generally, respondents argue that early adoption and transition provisions should be considered standard by standard, and to the extent not linked to IAS 1 or other standards, early adoption should not be linked.

27. When the staff present the full analysis and recommendations for specific proposed amendments, we will also evaluate the specific transitional provisions as appropriate for the Board's deliberation.

Consequential amendments

28. Respondents point out that some of the proposed amendments will need to be reflected in amendments to the documents accompanying the IFRSs, such as the Introduction, Basis for Conclusions and Implementation Guidance. For example, the proposed restructuring of IFRS 1 is intended to improve that IFRS and would also result in the restructuring of the accompanying documents. However, the respondents note that the ED omitted these consequential amendments.

29. They express concerns that because some of the proposals have a significant impact, the effect on all IFRS literature should be fully explained. Although they acknowledge that accompanying documents are not an integral part of

IFRSs, many emphasise that these relevant consequential amendments support a full understanding of implications from the changes.

30. These respondents particularly note the importance of a robust discussion of reasons for the Board to change a previously reached conclusion that was not an oversight or why the IFRS needs clarification. For completeness and transparency, they recommend that future EDs should include amendments to the relevant Basis for Conclusions and Implementation Guidance, if any.

Due process and procedures

31. The staff have highlighted earlier the widespread concerns about including in a single ED a large number of amendments with varying degrees of complexity and consequences, and whether the current due process is appropriate for the different types of 'improvements'. Notwithstanding perceived efficiency, respondents hope the Board will be willing to reconsider the process so that the new fast track process is not perceived as a means of changing standards by the back door.

32. Some respondents suggest that the Board should structure future exposure drafts to highlight those amendments that have more implications. Or, the Board may consider sorting the amendments into categories and highlight the amendments that introduce new requirements to assist constituents in considering the large number of small amendments proposed in the ED.

33. Many respondents support the discussion of proposed amendments over an extended period before an ED is published. They also support the public posting of the near-final drafts of the proposed amendments before the ED is published. However, some thought the 90-day comment period was insufficient, given the large volume of amendments and the significant implications of some of them.

34. They also note that the Board made significant changes to the near-final drafts posted on the website for some of the proposed amendments. Consequently, it is difficult to consider the near-final drafts when they may be altered before the publication of the ED.

35. Some respondents suggest that the Board should give an earlier opportunity to comment, either when *IASB Update* is published or when ballot drafts are posted over the course of the year. They believe that this could indicate whether it is appropriate to include the issue in the annual improvement process or whether it should be subject to a more extensive due process.

36. The staff will present a separate agenda paper with a full analysis and recommendation about this issue for future improvements projects after the Board has deliberated and issued the final amendments from this first project.

Other issues

37. Many respondents identify various issues that the Board should consider that are not addressed in the ED. Those issues that directly affect the proposed amendments will be incorporated in future agenda papers for the Board's redeliberation.

38. The staff will evaluate the other issues raised, and will, as appropriate, bring them forward when the Board considers the process for future improvements projects.

39. **Are there additional issues that the Board identified in its review of the comment letters that it would like the staff to consider?**

Summary of preliminary comment analysis

40. The staff summarised in Agenda Paper 4D and the Appendices to this agenda paper a preliminary analysis of the comments received on the ED. This analysis highlights the main areas that we think the Board should reconsider in the deliberations. This agenda paper does not ask the Board to reach any final conclusions on the specific matters raised.

41. Except for the proposed amendments included in separate agenda papers for this meeting, the staff has not reviewed or analysed in full the remaining proposed amendments and related comments. The summary in Agenda Paper 4D and the Appendices to this agenda paper may therefore not be comprehensive.

42. The staff has sorted the proposed amendments into the following three categories on the basis of our preliminary analysis:

(a) **AGENDA PAPER 4D –** Amendments that received broad support and, subject to minor editorial changes in some cases, are ready for the Board to reaffirm without deliberation

(b) **APPENDIX 1 –** Amendments that require more staff work but can be completed in time to meet the timetable for publication in May

(c) **APPENDIX 2 –** Amendments that require more staff work but cannot be completed in time

43. At this meeting, Agenda Paper 4D and its appendices outline in greater details the minor points raised by respondents for 16 of the proposed amendments. That agenda paper and its appendices also include the staff's recommendation, and any necessary revised wording, except for those required for the proposed amendment to IFRS 1. The staff do not intend to discuss any of these proposed amendments at the Board meeting unless requested by Board members.

44. If the Board approves these proposed changes as minor issues, the staff will provide any necessary re-drafting of the respective Bases for Conclusions in the ballot draft.

45. The staff will submit the mark-ups to the entire Basis for Conclusions and Implementation Guidance on IFRS 1 separately in view of the large number of pages involved and the extensive changes that will be needed to reflect the restructuring. The staff recommend that the amended IFRS 1 be published as a stand-alone document separately from the other finalised annual improvements amendments.

46. At this meeting, the staff will present Agenda Papers 4E to 4L to discuss the main points raised by respondents, and the staff's analysis and recommendations, for several of the proposed amendments in **APPENDIX 1** (see attached).

47. The staff intend to complete the analysis required and make recommendations on the remaining proposed amendments in **APPENDIX 1** (see attached) at the Board's meeting in March, along with any follow-up from this meeting.

48. If the Board's redeliberations of comments received generate significant debate for a specific proposed amendment, the staff will move the proposal to **APPENDIX 2** (see attached). Subject to time constraints, the staff will also update the project plan as necessary.

REDELIBERATION OBJECTIVES

49. The Board confirmed the project plan of the first annual improvements process for minor amendments at its meeting in July 2006. That project plan includes, among other things, a project timetable. Some of the key dates are extracted as follows:

    (a) ED published no later than *3 October each year*

    (b) Comment period (90 days) ends *31 December each year*

    (c) Present comment letter analysis to *February* Board meeting

    (d) Ballot final standard and publish 1 April each year (*effective date of amendments to be for periods beginning 1 January of the following year*)

50. The actual timetable of this project reflects that the Board published the ED on 11 October 2007. The comment period ended 11 January 2008 and the Board received 75 comment letters, nearly a third of which arrived during the two weeks after the requested deadline. Consequently, comment letter analysis and the redeliberations will take place at both the February and March meetings if the Board is to publish final amendments in time for an effective date as of 1 January 2009.

51. Because of the extent of comments summarised in Agenda Paper 4D and the Appendices to this agenda paper, and the number of proposed amendments to be finalised in a short period of time, the staff would like the Board to approve the initial categorization of amendments, as set out in Agenda Paper 4D and

the Appendices to this agenda paper, as the way forward for redeliberation at this meeting and in March.

52. **Does the Board agree with the initial classification of amendments in both Agenda Paper 4D and the Appendices to this agenda paper, and the staff's proposed way forward?**

53. **Does the Board agree with the staff's recommendation to publish the amended IFRS 1 as a stand-alone document separately from the other finalised annual improvements amendments?**

PROJECT PLAN

54. The project plan of the Board's redeliberations to achieve final publication by May 2008 is set out below. It identifies the Board meeting at which the staff expect to present additional analysis according to the respective proposed amendment's preliminary category as assessed earlier. If considered necessary, the staff will request Board time for additional follow-up sessions, which may also affect the overall timetable.

Meeting date	**Issue**
February 2008 (18-22 February)	**Re-deliberation overview** ▪ Affirm project objectives ▪ Discuss comment letter analysis summary (general comments) ▪ Discuss/approve initial categorization of proposed amendments ▪ Approve project plan **Specific analysis for proposed amendments (from Appendix 1)** ▪ IFRS 5, Question 2 – Plan to sell the controlling interest in a subsidiary ▪ IAS 16, Question 10 – Sale of assets held for rental ▪ IAS 19, Question 14 – Curtailments and negative past service cost ▪ IAS 19, Question 16 – Replacement of term 'fall due' ▪ IAS 28/31, Questions 22 & 25 – Disclosures required when investments in associates/jointly controlled entities are accounted for at fair value through profit or loss ▪ IAS 28, Question 23 – Impairment of investment in associates ▪ IAS 38, Question 28 – Ad and promotional activities ▪ IAS 40, Question 35 – Property under construction or development for future use as investment property **Other amendments not requiring deliberation (Agenda Paper 4D)** ▪ 16 proposed amendments to be finalized. These will not be discussed at the Board meeting unless a Board member requests.
March 2008	**Follow up of issues from February meeting (if any)**

Meeting date	Issue
(10-14 March)	**Specific issues and proposed amendments (from Appendix 2)** ▪ IFRS 7, Question 3 – Presentation of finance costs ▪ IAS 1, Question 6 – Current/non-current classification of derivatives ▪ IAS 8, Question 7 – Status of implementation guidance ▪ IAS 20, Question 19 – Government loans with a below-market rate of interest ▪ IAS 23, Question 20 – Components of borrowing costs ▪ IAS 27, Question 21 – Measurement of subsidiary held for sale in separate financial statements ▪ IAS 36, Question 27 – Disclosure of estimates used to determine recoverable amount ▪ IAS 38, Question 29 – Unit of production method of amortisation ▪ IAS 41, Question 38 – Point-of-sale costs ▪ IAS 41, Question 40 – Additional biological transformation
April 2008 (14-18 April)	**Sweep issues** ▪ If any
May 2008 (19-23 May) and thereafter	**Remaining issues and proposed amendments (from Appendix 2)** ▪ To be determined after publication of final amendments from the first annual improvements process

55. The timing of the remaining process is expected to be as follows:

Staff tasks	Board tasks	Due Date
Post **ballot drafts A** of final amendments and redrafted Basis for Conclusions for minor issues not deliberated Post **pre-ballot drafts B** of any amendments resulting from agenda papers considered at the February meeting and redrafted Basis for Conclusions		5 March
	Provide comments and vote on **A** Provide comments and draft dissenting views for **B**	17 March
Post **pre-ballot drafts C** of any amendments resulting from agenda papers considered at the March meeting and redrafted Basis for Conclusions		19 March
Post **ballot drafts** for **B**	Provide comments and draft dissenting views for **C**	26 March

Staff tasks	Board tasks	Due Date
	Provide comments and vote on **B**	1 April
Post **ballot drafts** for **C**		2 April
	Provide comments and vote on **C**	9 April
Sweep issues, if any, to be considered at the April meeting		14-18 April
Post all **post-ballot drafts** in one document		23 April
Post **complete document** on the public Website		End of April
Publication of final amendments (a Thursday)		End of May

56. **Does the Board agree with the project plan?**

APPENDIX 1

Amendments that require more staff work but can be completed in time

Proposed amendment	Standard affected	Comments
Plan to sell the controlling interest in a subsidiary – Question 2 The proposal was to clarify that all the 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.	**IFRS 5**	• Most respondents support this proposal in principle but many also express concerns as highlighted below: • Some respondents asked the Board to clarify the effects of the proposed amendment on the income statement when the disposal group meets the definition of a discontinued operation • When an entity holds an equity interest of 51% in a subsidiary and subsequently sells 2%, resulting in loss of control, a few pointed out that classification as held for sale would be inappropriate under IFRS 5.6 definition • A few asked the Board to clarify in paragraph 8A of the ED that the criteria for classification as held for sale need to be met • A few noted that the effective date of this amendment cannot be earlier than that for IAS 27 (as amended in 2008) given the initial measurement basis of the retained interest after control is lost. Seeing that the effective date of this proposed amendment is 1 January 2009, and that of IAS 27 (as revised in 2008) has been moved to 1 July 2009, they questioned whether the Board intended such a difference in the effective dates • Several object to this as an annual improvement
Presentation of finance costs – Question 3 The proposal was to resolve the potential conflict between IFRS 7.IG 13 and IAS 1 (as revised in 2007).	**IFRS 7**	• Almost all respondents agree with this except for a few who oppose it on the basis that it is acceptable to present interest income and interest expense net in the statement of comprehensive income • A few also point out that the amendment is only to the implementation guidance of IFRS 7,

Proposed amendment	Standard affected	Comments
IAS 1 generally precludes the offsetting of income and expenses. However, IFRS 7.IG 13 states that total interest income and total interest expense are components of finance costs.		which is not part of the standard, and that the preferred approach is to expand the minimum disclosures in IAS 1.82 to include both finance income and finance expense
Current/non-current classification of derivatives – Question 6 The proposal was to clarify that the current or non-current classification of derivatives classified as held for trading under IAS 39 for measurement purposes should be based on the requirements set out in IAS 1.	**IAS 1**	• Most respondents support this proposal in principle but some are still confused about what is meant by 'held for trading' under IAS 39. They equate 'held for trading' under IAS 39 with 'held primarily for the purpose of trading' under IAS 1 • Consequently, some commentators suggest that the board should reorganise the order in IAS 39 for the definition of 'financial asset or financial liability at fair value through profit or loss' by separating derivatives as a standalone subcategory rather than as an element of 'held for trading' subcategory
Status of implementation guidance – Question 7 The proposal was to clarify that the implementation guidance does not require mandatory application.	**IAS 8**	• Although no respondents oppose, many view this as excessive • Some suggest retaining the wording unamended because the interpretative weight of IG varies between standards and depends on context • Over-emphasising the non-mandatory nature vs the existing 'considers' could unnecessarily devalue the guidance and not just a clarification as it may result in potential changes in practice
Sale of assets held for rental – Question 10 The proposal was to amend IAS 16 to address presentation issues arising from assets held for rental to others	**IAS 16, IAS 7**	• Most respondents agree with the rationale but many also express concerns and opposition as highlighted below • If restricted to PPE held for rental, some viewed this as rule-driven and the Board should develop principles applicable to all PPE, regardless of their initial use

Proposed amendment	Standard affected	Comments
that are routinely sold in the course of its ordinary activities.		• Some believed that the proposed amendment is not consistent with paragraphs 57 and 58 of IAS 40 • Others asked the Board to clarify the interaction with IFRS 5 • A few questioned whether specific disclosures are needed • A number of them object to this as an annual improvement **Consequential amendment to IAS 7** • Some did not agree with the consequential amendment. They were of the view that the operating cash flows arise only from rental of assets, and that cash payments for acquisitions or disposals should be classified as investing activities as they relate to PPE that are long-term assets
Curtailments and negative past service cost – Question 14(a) & (b) **Question 14(a)** The proposal was 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 **Question 14(b)** The proposal was to amend IAS 19 to clarify that when a plan amendment reduces benefits for future service, the reduction relating	**IAS 19**	**Question 14(a)** • More guidance is needed on distinction between a negative past service cost and curtailment • Drafting ignores that benefits may be improved and the defined benefit obligation may decrease • Seems counterintuitive. Removing the link to future salary increases is a curtailment even if that is the only change and there is no curtailment event such as a sale of a company • Should be allowed to offset negative and positive past service costs as for SFAS 87 • Full retrospective application would be difficult • A few object to this as an annual improvement **Question 14(b)** • Significant is not a defined term.

Proposed amendment	Standard affected	Comments
to future service is a curtailment and any reduction relating to past service is negative past service cost.		• What to do if change is material but not significant
Replacement of term 'fall due' – Question 16 The proposal was to replace the term 'fall due' in the definition of short-term employee benefits and other long-term employee benefits.	**IAS 19**	• Most respondents agree with the Board's intention to achieve consistency but many object to the proposal, noting that replacing the term 'fall due', along with the deletion of 'wholly', creates a very different distinction from the typical interpretation in practice • The Board's shifting focus from settlement to entitlement on classification employee benefits is not a minor change • Unclear if 'entitlement' is the same as 'vesting', defined as 'to become an entitlement' under IFRS 2, and will change classification for a wide range of existing benefits with different measurement bases • Other paragraphs in IAS 19 continue to focus on 'actual or expected settlement' rather than only on 'entitlement' (examples not extracted) • A number of them object to this as an annual improvement if the proposals stay as they are
Government loans with a below-market rate of interest – Question 19 The proposal was to clarify that the benefit of a loan received from a government with a below-market rate of interest should be quantified by imputing interest in accordance with	**IAS 20**	• Most respondents support this proposal but some express concerns as highlighted below • Creates inconsistency with IAS 20 approach as a whole, which does not require fair value of non-monetary grants received • The proposal only applies to 'forgivable loans' that are in substance same as other government grants repayable if certain conditions are not met • Practical difficulties to impute such benefit in the absence of a market for the government

Proposed amendment	**Standard affected**	**Comments**
IAS 39		loan • Concerned with a piecemeal approach that ignores other inconsistencies in IAS 20, an old standard that needs extensive revision to align with other standards and the *Framework* • Several object to this as an annual improvement
Components of borrowing costs – Question 20 The proposal was to amend IAS 23 (as revised in 2007) to refer to the guidance in IAS 39 on effective interest rate when describing the components of borrowing costs.	**IAS 23**	• Most respondents agree to improve consistency • Some support this if components of borrowing costs are unchanged but unsure whether the deletion of 'ancillary costs' has impacts; others question why the Board, just after issuing IAS 23 as revised in March 2007, proposes to modify it again • Some object on the basis that this changes current practice of capitalising post-hedging borrowing costs, whereas the effective interest rate under IAS 39 excludes hedging impact
Measurement of subsidiary held for sale in separate financial statements – Question 21 The proposal was to amend IAS 27 to require investments in subsidiaries that are accounted for under 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).	**IAS 27**	• Most respondents support this amendment but some express concerns and a few object to this as highlighted below • Some respondents point out that investments in subsidiaries accounted for in accordance with IAS 39 can be measured at cost, not fair value • Others note that this does not clarify how IAS 39 applies but clarifies that subsidiaries carried at cost are not exempt from the requirements of IFRS 5

Proposed amendment	Standard affected	Comments
Required disclosures when investments in associates are accounted for at fair value through profit or loss – Question 22 The proposal was 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 under IAS 39 with changes in fair value recognised in profit or loss.	**IAS 28, IAS 32, IFRS 7**	• Most respondents support it but express concerns as follows • Some point out that investments in associates accounted for at fair value under IAS 39 were specifically excluded from the scope of IAS 28 as part of the 2003 Improvements Project • Respondents are unclear as to (a) why certain disclosures are required but others in IAS 28 relevant to financial instruments are not; (b) why required disclosures for financial instruments are not in IFRS 7 or IAS 39, and (c) why disclosures in IFRS 7 or IAS 39 are insufficient • The benefits from these additional disclosures exceed the costs involved in providing them • Some object to the decrease in disclosure requirements
Impairment of investments in associates – Question 23 The proposal was to clarify the circumstances in which an impairment charge against an investment in an associate should be reversed	**IAS 28**	• Most respondents support this proposal but some request clarification, and nearly one third of the respondents object to it, reason as highlighted below • Unclear how the amended paragraph 33 interacts with paragraph 23 on goodwill impairment, which refers to goodwill recognised on the balance sheet of the associate but not to the goodwill included in the investment in associate • Others are concerned with the reference to consider factors in IAS 39 when determining whether an investment in an associate may be impaired because (a) such investments are excluded from IAS 39 scope; and (b) IAS 39 precludes reversal of impairment for equity instruments available for sale • Many who object to this agree with the dissenting opinion • Some also note the inconsistency created (a) of the separately identifiable goodwill of an associate and the separately identifiable

Proposed amendment	Standard affected	Comments
		goodwill of a subsidiary subsequent to initial recognition; (b) between the initial and subsequent measurement of goodwill in an associate; and (c) with IAS 36, and IAS 28 which requires IFRS 3 principles to be applied to the acquisition of an interest in an associate despite an associate being a single asset • Several object to this as an annual improvement
Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss – Question 25 The proposal was to amend IAS 31 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 under IAS 39 with changes in fair value recognised in profit or loss.	**IAS 31, IAS 32, IFRS 7**	• Respondents' comments for this proposal are similar to those received for Question 22 that amends IAS 28 (see above)
Disclosure of estimates used to determine recoverable amount - Question 27 The proposal was 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	**IAS 36**	• Most respondents support this amendment but some express concerns and a few object to this as highlighted below • The proposal does not take sufficient account of basic differences between estimating value in use and fair value less cost to sell such as source information and assumptions • The Board require disclosures of a methodology not discussed in the relevant section • A few object to this as an annual improvement

Proposed amendment	Standard affected	Comments
Advertising and promotional activities - Question 28(a) & (b) The proposal was to clarify the meaning of 'as incurred' in the context of IAS 38 requirement of expense recognition and to make 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.	**IAS 38**	• Half of those who comment on this issue object to this proposal and for it as an annual improvements on the following basis • Many feel that the proposed amendment would result in a significant change to current practice and that the issue affects a much wider principle regarding the difference between an asset and an expense • Some respondents specifically addressed the question of mail order catalogues arguing that they were not a form of advertising and promotion and excluded from this change; they also considered that such catalogues were a form of distribution network that may be capitalised and amortised over the periods used to generate sales • Many agree with the dissenting opinion and suggest dealing with this issue as a separate project
Unit of production method of amortisation - Question 29 The proposal was to remove the perceived restriction of using the unit of production method of amortisation where the expected pattern of consumption of the future economic benefits in the asset is weighted to the end of the asset's life.	**IAS 38**	• Most respondents agree with the broad principle to select an amortisation method that reflects the expected pattern of consumption of the expected future economic benefits embodied in the asset but many express concerns and a few object as highlighted below • Unclear of what principle to identify the pattern of consumption of economic benefits, eg based on revenue pattern or time pattern or volume of production; and what if the quantity of 'expected future benefits' is indefinite • Unclear if the amendment applies only to service concession arrangements or broader • Unclear how this proposal affects IFRIC 12.BC 65 for service concession contracts, which asserts that interest methods of amortisation are not permitted under IAS 38
Property under construction or development for future use as investment property - Question 35	**IAS 40, IAS 16**	• Most respondents agree with the rationale but many also express concerns and nearly 20% of those who comment on this issue object to it as highlighted below • Many disagree with the Board's conclusion that difficulty of reliably estimating fair value

Proposed amendment	Standard affected	Comments
The proposal was to include property under construction or development for future use within the scope of IAS 40, such that 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.		for such assets have been lessened because each property differs according to individual progress of construction work • They point out that IAS 40 lacks sufficient guidance about fair valuing such properties using cash flow projections. For example, IAS 40.40 refers to estimating expected rental income from current or future leases in light of current conditions, which do not exist because (a) pre-leases are likely only at the end of construction period, not at the beginning; (b) estimation of future leases taking into account current conditions is complex as such property is not in a condition to be used or rented. On the other hand, IAS 40.51 precludes taking into account future capital expenditure that will either improve or enhance the property and related future benefits • Many also disagree, citing transitional issues from the different measurement models between IAS 40 and IAS 16, and request the Board to provide an option to account for such properties during construction under a cost or fair value model without affecting other completed investment properties to avoid major changes in accounting for such assets • Creates inconsistency between a purchased property for the purpose of redevelopment and a property already used as investment property and that is being redeveloped for entities that account for their investment properties at cost • A number of them object to this as an annual improvement
Point-of-sale costs - Question 38 The proposal was to replace 'point-of-sale costs' with 'costs to sell'.	**IAS 41, IFRS 5, IAS 2, IAS 36**	• Most respondents agree with the proposal although some object to this on the basis that the two terms are not defined the same • Some also state that 'point-of-sale costs' was explicitly used to distinguish from 'costs to sell' to consider the unique aspects of agriculture assets • Many point out that (a) 'costs to sell' normally include transport costs, which are explicitly excluded from

Proposed amendment	**Standard affected**	**Comments**
		‘point-of-sale’ costs; and (b) ‘point-of sale costs’ implicitly include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties, etc., and its unclear whether ‘costs to sell’ would include these
Additional biological transformation - Question 40 The proposal was to remove the prohibition on taking ‘additional biological transformation’ into consideration when calculating fair value using discounted cash flows.	**IAS 41**	• Most respondents support the removal of restriction but some note inconsistencies and a few also object to it, as highlighted below • Creates conflict with the objective of determining the fair value of a biological asset in its present location and condition, and may result in current period recognition of biological transformation that is to take place in the future • Unclear how to measure a biological asset that has not reached maturity at the closing date and for which no active market exists • Many object to including ‘harvest’ in the definition of ‘biological transformation’ because it is a process induced by man and not a biological transformation itself • A few object to this as an annual improvement

APPENDIX 2

Amendments that require more staff work but cannot be completed in time

Proposed amendment	Standard affected	Comments
Statement of compliance with IFRS – Question 4 The proposal was to require entities that refer to International Financial Reporting Standards (IFRSs) in the basis of their financial statements without an explicit and unreserved statement of compliance with IFRSs to disclose how their financial statements would have been different if prepared in full compliance with IFRSs.	**IAS 1**	• Although many respondents understand the Board's reasoning behind this proposal, nearly two-thirds disagree that this amendment will achieve its aim and about a-third object to including this as an annual improvement • Most point out that this is an issue for regulators or auditors rather than standard-setters, and inappropriate for individual entities to address through disclosures comparing IFRSs and other non-IFRSs frameworks • The proposal creates an onerous burden and ignores the time lapse between the Board's adoption of changes and jurisdictional endorsement process for new requirements; and if this 'gap' spans a year-end reporting period, the disclosure requirement applies only in years with such a delay for all historical periods reported, and arises on an irregular basis for irregular accounting items • Many also perceive this as an endorsement by the Board of non-compliance with IFRSs that will dilute the IFRS brand and handicap the convergence effort • Some point out that the proposal is based on a flawed logic of the Board's ability to require those who comply to state compliance explicitly but not others who do not comply to state non-compliance because jurisdictions can carve out the requirement • Others believe a narrative description of differences will not suffice in understanding the impact of non-compliance

Proposed amendment	Standard affected	Comments
Current/non-current classification of convertible instruments – Question 5 The proposal was to clarify that the current/non-current classification of the liability component of a convertible instrument should be referenced to when the issuer will transfer cash or other assets, rather than when the issuer will settle the liability through the delivery of its equity shares. This issue arose from applying the guidance in IAS 1 and the Framework, which state that information about liquidity and solvency positions of an entity is useful to financial statement users.	**IAS 1**	• Most respondents support that the settlement of a liability by the issue of equity is not relevant in determining the current/non-current classification of the liability component of the convertible instrument • However, many are concerned that the proposed amendments might affect the current/non-current classification of other types of liabilities (settled other than by transfer of cash or other assets) • Specifically, they asked the board to consider other types of settlement set out in paragraph 62 of the Framework before it finalises the amendment, as follows: a) Provision of services; b) Replacement of the existing obligation with another obligation; and c) Conversion of an obligation into a variable number of equity instruments of the issuer • On point (c), many note that an instrument that requires the issuer to deliver a variable number of its equity instruments to the holder is classified as a financial liability under IAS 32.21. Some commentators believe that the current/current classification of such a liability should be based on the due date for settlement
Classification of leases of land and buildings – Question 11 The proposal was to amend IAS 17 to address a perceived inconsistency between the specific classification guidance for leases of land and buildings nd the general lease classification guidance in IAS 17.	**IAS 17**	• Most respondents support the simplification but many also express concerns, and nearly 25% of those who comment on the issue object to the change and to including this as an annual improvement • Many object on the basis that this is a significant change from current practice, and a reversal of the Board's previously documented decision during the 2003 Improvements Project, which not only specifically included the wording being proposed for deletion, but also specifically rejected the current proposal • They point out that this also conflicts with IFRIC agenda decision as of March 2006 on a similar issue (500-year lease example), which did not expect significant diversity in practice

Proposed amendment	Standard affected	Comments
		• These respondents say that the rationale of change in position and the underlying perceived inconsistency to be improved is currently unclear or unjustified • While some acknowledge that certain of these long leases of land may in substance be similar to finance leases, others say that deleting the guidance does not improve accounting but rather creates inconsistent application due to the practical difficulty in determining how long a lease term would need to be to indicate a transfer of risks and rewards (100, 300, 600 years) without a title transfer • Respondents point out that if the Board's intent was to reduce the number of occasions when a lease of land and buildings would be 'bifurcated' into separate land and buildings elements, the current drafting still defeats this objective by retaining paragraph 15 • Respondents also feel that this change should not be retrospective because a review of all existing land and building leases cause undue cost and effort • Many respondents support retaining the existing guidance and making proposed amendments as a part of the Leasing project
Contingent rents – Question 12 The proposal was to require contingent rent relating to an operating lease to be recognised as incurred to achieve consistency in the treatment of contingent rent for finance and operating leases.	**IAS 17**	• Most respondents support this proposal to achieve consistency but some are concerned about additional implications • Many read the proposal to recognise 'as incurred' differently, varying from recognition of the contingent amount either (a) at the end of the lease agreement in full when the contingency expires; (b) spread over the remaining lease term; or (c) in more than one period using some form of amortisation • Others point to structuring opportunities created so that significant parts of the actual payments, though virtually certain, may be contingent and are not recognised as an expense

Proposed amendment	Standard affected	Comments
		until the end of the agreement • Some are also unclear how the proposed accounting interacts with the proposed amendment to the definition of derivative in IAS 39 (see summary for Question 30 below), which would result in an embedded contingent rentals in a host lease contract that is not specified in IAS 39.AG33(f) being separately accounted for as a 'derivative'
Definition of a derivative - Question 30 The proposal was to remove the exclusion from the existing definition of a derivative contracts linked to non-financial variables that are specific to a party to the contract so that such contracts within the scope of IAS 39 would be classified as derivatives.	**IAS 39**	• Most respondents who comment on this issue disagree and nearly half of them object to including this as an annual improvement • Many feel that the existing practice issue remains unsolved, ie the distinction between financial and non-financial variables continues to be unclear • At the same time, the proposed amendment would result in a significant change to current practice, resulting in many non-IFRS 4 contracts to be in the scope of IAS 39 and accounted for at fair value inappropriately • Most of the contracts affected are the same ones with significant measurement difficulties, and for which a fair value accounting fails to capture the economic substance of the agreements because the variables are specific to a party to the contract with no active market • To name a few examples of the contracts affected by the proposal, they include (1) lease contracts with payments based on performance measures specific to the lessee (see summary for Question 12 above); (2) pharmaceutical contracts with payments based on the success rate of that drug; (3) mobile phone service provider arrangements with distributors remunerated on the basis of the length of contract term agreed with the end customer; (4) a technology licensing agreement with payments due to the licensor based on production volumes ; (5) some service concession arrangements under IFRIC 12

Proposed amendment	**Standard affected**	**Comments**
		• Many respondents point to these contracts and express concerns that it would be inappropriate to require an entity to fair value its own business risk or its own future profit streams • Although this may be consistent with the Board's original intention to exclude only IFRS 4 contracts from the scope of IAS 39, given the wider application of the current unamended standard over the last few years, this proposal will have significant unintended consequences and need further research into possible implications and should include this as a separate project for a major amendment • At the minimum, retrospective application is unduly onerous and the Board should consider specific transition requirements for such a change in practice
Treating loan prepayment penalties as closely related embedded derivatives - Question 34 The proposal was to remove an inconsistency and to clarify 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.	**IAS 39**	• Most respondents support achieving consistency but there are some concerns • Unclear to what extent such reduction has to occur and potential structuring issues • Unclear from proposed wording which calls, puts or prepayment options would in practice need to be bifurcated after the change • Other situations in paragraph AG33(a) are not addressed • The change should also apply when the exercise price compensates the holder for other losses (such as losses due to the need to close associated hedging derivatives) as long as paragraph AG33(a) does not apply • Respondents also raise an additional issue that could arise when no penalty fees are charged as in the case of a variable rate borrowing. On initial recognition, where a borrowing is to be subsequently carried at amortised cost, incremental direct costs will be netted against the borrowing's initial carrying amount. If the issuer has the option to settle at any date after the initial drawdown, the option exercise price immediately after the issue date will be the loan's

Proposed amendment	Standard affected	Comments
		principal amount, which may not be ‘approximately equal’ to the loan’s amortised cost amount. Where initial costs are substantial this would appear to still give rise to an embedded derivative issue for the issuer.