



The South African Institute of Chartered Accountants

7 November 2008

International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

Email: CommentLetters@iasb.org

Dear Sir/Madam

SAICA SUBMISSION ON EXPOSURE DRAFT OF PROPOSED *IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS*

In response to your request for comments on the IASB's exposure draft, *Improvements to International Financial Reporting Standards (IFRSs)* (2008), attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA). Please note that SAICA is not only a professional body, but also secretariat for the Accounting Practices Board (APB), the official standard-setting body in South Africa. The SAICA comment letter results from deliberations of the Accounting Practices Committee (APC), which is the technical advisory body to the APB.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Accounting

cc: Moses Kgosana (Chairman of the Accounting Practices Board)
Prof Alex Watson (Chairman of the Accounting Practices Committee)

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GENERAL COMMENTS

We generally support the proposed improvements to the eight Standards as detailed in the exposure draft, subject to the comments provided below.

SPECIFIC COMMENTS

PROPOSED AMENDMENT TO INTERNATIONAL FINANCIAL REPORTING STANDARD 2 – *SHARE-BASED PAYMENT*

Question 1

Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the intention of the Board's proposal. However, we believe that the wording of paragraph 5 should be amended as described below.

Currently the proposed wording states that IFRS 2 does not apply to “*net assets acquired in a business combination as defined by IFRS 3 ..., in a combination of entities or businesses under common control as described in ..., or the contribution of a business on the formation of a joint venture...*” Our understanding of IFRS 3 (as revised in 2008) is that “*net assets acquired in a combination of entities or businesses under common control as described in ..., or the contribution of a business on the formation of a joint venture...*” would meet the definition of a business combination as defined in IFRS 3 (revised 2008)), but would be excluded from the scope of IFRS 3 (revised) 2008). Therefore, we suggest the following wording, “*net assets acquired in a business combination as defined by IFRS 3 ..., including a combination of entities or businesses under common control as described in ..., ~~or~~ and the contribution of a business on the formation of a joint venture...*”. Alternatively, the following wording is suggested, “*net assets acquired in a business combination to which ~~as defined by~~ IFRS 3 applies ..., in a combination of entities or businesses under common control as described in ..., or the contribution of a business on the formation of a joint venture...*”.

Question 2

Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

Yes, we agree with the proposed transition provisions and the effective date for the issue as described in the exposure draft.

PROPOSED AMENDMENT TO INTERNATIONAL FINANCIAL REPORTING STANDARD 5 – *NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS*

Question 1

Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

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In our view the proposed wording in Paragraph 5A which states that “*This IFRS specifies the disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other IFRSs do not apply to such assets (or disposal groups) unless those IFRSs specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations*”, is unclear. It appears from this wording that only the disclosure requirements under IFRS 5 need to be applied in respect of non-current assets (or disposal groups) classified as held-for-sale or discontinued operations, unless another IFRS specifically requires disclosures for these non-current assets (or disposal groups) classified as held for sale or discontinued operations. For example, if a provision is included in the disposal group or a discontinued operation, it would appear that an entity need not comply with the disclosure requirements provided under IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*. Moreover, revenues generated by a discontinued operation need not comply with IAS 18 – *Revenue*, disclosures. This is because neither IAS 18 nor IAS 37 specifically prescribes disclosure requirements for non-current assets (or disposal groups) held for sale or discontinued operations.

We envisage that difficulties may be encountered in determining the disclosures that an entity is required to provide. This is because IFRS 5 sets out specific disclosure requirements, but also a requirement under paragraph 30 to “*present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups)*”. For example, a situation could occur where all interest-bearing financial instruments are part of the disposal group or discontinued operation. If IFRS 7 – *Financial Instruments: Disclosures*, need not be applied to these financial instruments included in the disposal group or discontinued operation, this could mean that it would not be necessary for an entity to disclose interest income or interest expense (for financial assets and liabilities not at fair value through profit or loss). Also, no liquidity analysis would be required. Similarly, if there were available-for-sale financial assets in the disposal group it would not be necessary to disclose the fair value adjustments recognised directly in equity (in other comprehensive income) or the amount reclassified (recycled) during the year.

The previous paragraph also highlights another uncertainty with regard to the proposed amendment. That is whether the references to disclosures are only related to the balance sheet items or whether they extend to items included in the statement of comprehensive income as well. We suggest that this be clarified in the amendment to IFRS 5.

BC4 states that “*The Board also noted that, when a disposal group includes assets and liabilities that are not within the scope of the measurement requirements of IFRS 5, disclosures about measurement of these assets and liabilities are **normally** provided in the other notes to the financial statements and do not need to be repeated, unless they enable users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).*” (emphasis added).

The wording in BC4 confused our understanding of the proposed amendment to the Standard. It is unclear what is meant by this statement in BC4 above. Was this based on an observation of what some entities have been applying in practice, rather than what is required by the

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proposed amendment? The specific reference to “*assets and liabilities that are not within the scope of the measurement requirement*” could be read to mean that for these assets and liabilities, the disclosure requirements of other Standards need to be applied and that this proposed amendment is only applicable to assets and liabilities within the measurement scope of IFRS 5. Also the reference to the disclosures not being required to be repeated implies that the disclosures are still required. This appears to contradict paragraph 5A above.

The wording in paragraph 5A states “*Additional disclosures about such assets (or disposal groups) may be necessary to comply with the general requirements of IAS 1*”. The inclusion of the specific reference to IAS 1 is not clearly understood, particularly in the context of the comment raised on BC4 above. IAS 1 paragraph 29 states “*An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.* Paragraph 31 of IAS 1 states “*An entity need not provide a specific disclosure required by an IFRS if the information is not material.*” Do these paragraphs imply that material transactions that occurred which are related to the non-current assets (or disposal groups) held for sale or discontinued operations should comply with the disclosure requirements of another IFRS even though that particular IFRS does not specifically provide disclosures for non-current assets (or disposal groups) held for sale or discontinued operations. For example, IAS 18 does not specifically refer to non-current assets (or disposal groups) held for sale or discontinued operations. Alternatively, is the reference to IAS 1 meant to be applied to the disposal group as a whole, rather than to the individual items within the disposal group? We suggest that the Board clarify this.

Question 2

Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

Yes, we agree with the proposed transition provisions and effective date for the issue as described in the exposure draft.

PROPOSED AMENDMENT TO INTERNATIONAL FINANCIAL REPORTING STANDARD 8 – OPERATING SEGMENTS

Question 1

Do you agree with the Board’s proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

While we agree with the intention of the proposal to change the Basis for Conclusions on IFRS 8, we do not agree with the Board’s conclusion that no changes be made to the IFRS itself. Although we concur that the proposed amendment to the Basis for Conclusions is consistent with the wording of IFRS 8, we believe that the wording in IFRS 8 is cumbersome and should be improved.

For example, paragraph 23 of IFRS 8 states that a measure of total assets is required for each reportable segment. Paragraph 25 then states that only those assets that are included in the measure of total assets that is used by the chief operating decision maker shall be reported. The

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proposed amendments to BC35 of IFRS 8 clarifies that if no measure of total assets is reported to the chief operating decision maker, then no disclosure for segment assets would be required. In contrast, for segment liabilities, paragraph 23 states that such a measure is required only if such an amount is regularly provided to the chief operating decision maker. The wording for segment liabilities is clear and concise. We question why there should be different wording in paragraph 23 for segment assets and segment liabilities. We would suggest that the same wording that is currently used for segment liabilities in paragraph 23 be extended to apply to segment assets.

Question 2

Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

Not applicable – none proposed.

PROPOSED AMENDMENT TO INTERNATIONAL ACCOUNTING STANDARD 7– STATEMENT OF CASH FLOWS

Question 1

Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We support the Board's proposal to amend this IFRS. We agree that investing activities as described in IAS 7 should be limited to circumstances in which an asset is recognised. This clarifies the application of the concept of investing activities.

We do suggest that the wording in paragraph 16 of IAS 7 should clarify that the cash flows that are classified as investing activities are only those to the extent they are initially recognised as assets. This is relevant when the cash outflow may be different from the amount at which the asset is initially recognised. For example, an entity makes a loan of CU 1 000 bearing interest at below market interest rates. The loan is recognised initially at fair value of say CU 900. Assuming that the difference of CU 100 is recognised as an expense upfront, we believe that paragraph 16 should make it clear that only CU 900 can be classified as investing activities and that CU 100 should be classified as operating activities.

Question 2

Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

Yes, we agree with the proposed transition provisions and effective date for the issue as described in the exposure draft.

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PROPOSED AMENDMENT TO INTERNATIONAL ACCOUNTING STANDARD 18 – REVENUE

Question 1

Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the Board's proposals to provide guidance on determining whether an entity is acting as a principal or as an agent, as IAS 18 does not provide guidance on this important and relevant issue. We also support the principle and the features proposed by the Board to be used in determining whether an entity is acting as a principal or as an agent under the proposed example 21.

However, we believe that the above principle, together with the features as set out in example 21 (a) – (d), be included in the body of IAS 18 rather than in an example in the Appendix, given that the Appendix is not part of the Standard. By the Board's own acknowledgement in BC 2, IAS 18 does not currently provide the necessary guidance; therefore, we believe it appropriate to incorporate this guidance into the Standard. We see the provision of this guidance to be similar to the provision of the finance lease indicators in IAS 17 – *Leases*.

With regard to feature (c), *"the entity has discretion in establishing prices, either directly or indirectly, for example by providing additional goods or services"*, it is not clear how the example provided in the latter part of the sentence ties in with the first part of the sentence. We recommend that either the example be expanded to provide clarity or that another example be provided to illustrate the entity's discretion in establishing prices.

With regard to feature (d), *"the entity bears the customer's credit risk"*, we believe that it should be clarified that this relates to the amount owed by the customer and not to the fee or commission to be received by the entity. For example, if the entity risks losing its fee or commission should the customer fail to pay, we do not believe that this should indicate that the entity is acting as a principal. We suggest the following wording: *"the entity bears the ~~customer's~~ credit risk of the customer's transaction."* We believe further that it would be useful if the Board clarified that the exposure to the credit risk of the customer needs to be considered carefully particularly when the entity is a financial institution that facilitates the transaction between the supplier and the customer and provides financing to the customer.

The wording in example 21 which states that *"One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer"*, seems to suggest that, if this feature exists, one would conclude that the entity is acting as an agent. We therefore suggest that the following wording be added *"A feature that may indicate that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer."* (added words underlined).

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Question 2

Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

Not applicable – none are proposed.

Question 3

The Board proposes to include in the Appendix of IAS 18 Revenue guidance on determining whether an entity is acting as a principal or as an agent. What indicators, if any, other than those considered by the Board should be included in the guidance proposed?

We support the features identified, and the fact that an individual feature can only be an indication whether an entity is acting as a principal or as an agent when no other feature or circumstance indicates differently.

We suggest that the Board include the following indicators, in addition to those set out in example 21(a) – (d).

- Feature (e). ‘the entity has the ability to modify the goods or services supplied or the terms on which the goods or services are supplied or rendered.’ We believe that an entity that is an agent would not be able to perform any actions solely without relying on the approval of another party being the principal.’
- Feature (f). ‘the entity has the discretion of selecting suppliers.’

Furthermore, we suggest that IAS 18 should make it clear that an entity needs to identify the different components of a transaction before determining whether it is acting as an agent or as a principal for each component, because it is possible that an entity may be acting as an agent for one component and as a principal for another component of a transaction with multiple elements. This should also be included in the body of the Standard.

PROPOSED AMENDMENT TO INTERNATIONAL ACCOUNTING STANDARD 36 – IMPAIRMENT OF ASSETS

Question 1

Do you agree with the Board’s proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the proposal for the reasons set out in the Basis for Conclusions. Consideration should be given to making the requirement even clearer by adding the words: “*as allowed by paragraph 12 of IFRS 8*”, to the end of the paragraph in IAS 36 being amended.

Question 2

Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

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Yes, we agree with the proposed transition provisions and effective date for the issue as described in the exposure draft.

PROPOSED AMENDMENT TO INTERNATIONAL ACCOUNTING STANDARD 38 – INTANGIBLE ASSETS

Question 1

Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

Whilst we agree with the proposed changes in paragraphs 36 and 37, we believe that the wording in paragraph 36 could be improved. This paragraph refers to an intangible asset being acquired together with a related identifiable asset, which could presumably be a tangible asset. Whilst this paragraph states that the intangible asset should be recognised separately from goodwill, we believe it should also be recognised separately from any related tangible asset(s). Therefore, we would suggest that paragraph 36 states, *"In such cases, the acquirer recognises the intangible asset separately ~~from goodwill~~."*

We further recommend that the Board add the following wording in paragraph 36 *"If an intangible asset is separable only with another intangible asset, the acquirer may recognise the group of intangible assets as a single asset, provided that they have similar useful lives. (added words underlined)."* This could enhance comparability and avoid situations where intangible assets with different useful lives are recognised as a single asset.

We suggest that for completeness and clarity, the last sentence in paragraph 37 be amended as follows: *"For example, the terms 'brand' and 'brand name' are often used as synonyms for trademarks and other marks that are typically used to refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise. Such complementary assets may only be grouped together and recognised as a single asset if the individual items have similar useful lives."*

Regarding the proposed changes in paragraphs 40 and 41, because it is not clear to us what might have led to paragraph 41 being misinterpreted, it is difficult to comment on whether the proposed amendment is necessary. Paragraph 41 states that techniques used to value intangibles indirectly can also be used in a business combination. Presumably, if there is no active market for an intangible, then paragraph 40 is also allowing an indirect method of valuation. If however it was intended that the new wording to be added to paragraph 40 was implying that this is a direct, as opposed to an indirect, valuation, then that is not clear and we believe this should be clarified. If this is not the intention of the changes, then the impact of the changes is not clear and we believe that this should be clarified.

Question 2

Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

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We support the transition provisions. However, we do not support the proposal to apply the proposed amendments to paragraphs 36 and 37 and paragraphs 40 and 41 from different dates. Instead, we would prefer that all these amendments have the same effective date, being 1 July 2009. We believe it will create unnecessary complexity and confusion to have different effective dates for ‘minor and non-urgent’ amendments to the same Standard.

PROPOSED AMENDMENT TO INTERNATIONAL ACCOUNTING STANDARD 39 – FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

Question 1

Do you agree the Board’s proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

Scope exemption

While we agree with the proposed amendment, we believe that greater clarity should be provided. For example, BC3 states that paragraph 2(g) should be restricted to forward contracts and should not apply to currently exercisable option contracts that on exercise will result in control over an entity because such option contracts are excluded from the scope by paragraph 2(a). We do not believe that it is clear that such option contracts are excluded by paragraph 2(a). While we acknowledge that such option contracts are included in the consideration of whether an entity has control over another entity, we understood that these contracts should be recognised separately from the investment in subsidiary. Therefore, we do not understand why such contracts would be excluded by paragraph 2(a). We suggest that this conclusion be reconsidered and/or greater clarity be provided to support the conclusion.

Fair value option

We agree with the proposals in paragraph 11A.

Hedging accounting

We agree with the proposals in paragraphs 97 and 100 and the Implementation Guidance.

Embedded derivatives (paragraphs 10-13)

We believe that the principle outlined in BC18 is fundamental and therefore recommend that BC18 be moved to the Application Guidance of IAS 39, as opposed to including it in the Basis for Conclusions. Similarly, BC19, which provides much needed guidance on determining whether a currency has one or more of the characteristics of a functional currency of a substantial party to the contract, should also be included in the Application Guidance of the Standard.

With regard to BC19 (d) which states “*a liquid international currency used by parties domiciled in small countries, as a convenient means of exchange*”. It is unclear why reference was made to ‘small’ countries. We would suggest that this reference be deleted, so that it could be applicable whenever a liquid international currency is used as a convenient means of exchange.

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We suggest that an additional indicator be provided to cater for cross-border transactions in which it is common for a foreign currency to be used. For example, an entity domiciled in say South Africa sells software over the internet. Given that most of the foreign customers would prefer not to denominate the price in South African Rands, the price is quoted in an international currency such as US Dollars or Euros. In the words of BC18, we believe that the reasons for denominating the transactions in a foreign currency are clearly not based on achieving a desired accounting result or for speculative purposes, and therefore we do not believe that such embedded derivatives should be separated out. We do not believe that BC19 (b) caters for such transactions because it may not be the case that such transactions are ‘routinely denominated in commercial transactions around the world’ in the particular foreign currency. For example, entities in the UK, may denominate such transactions in British Pounds.

In BC19 (f) it is unclear what is meant by “*a foreign currency commonly used in local business transactions*”. If there is evidence of some transactions denominated in US Dollars, some in Euros and some in British Pounds, is it possible to conclude that all of these currencies can be regarded as ‘commonly used’? Also, should the particular type of transaction be considered? For example, it may be that there is evidence that many property lease transactions are denominated in US Dollars, does this mean that the US Dollar can be seen to be commonly used for all local transactions, or only for property lease transactions?

We would suggest that the wording in AG33 (d) should focus on what would be ‘closely related’ and explain ‘abnormality’ and explain that ‘abnormal’ is where a speculative position is taken (i.e. the entity wants to generate exposures to short-term fluctuations in exchange rates) or the entity wants to achieve a specific accounting result. The focus should be on the particular non-financial items in question and the circumstances and background (which themselves give rise to economic characteristics and risks) that the particular transaction takes place in. Bifurcation should be required when additional or unexpected or abnormal economic characteristics and risks (in respect of the foreign currency element) are introduced.

AG33 (d) (i) and (ii) deal with the functional currencies of the counterparties and the goods involved and we understand that item (iii) was introduced to assist ‘small’ countries like South Africa where it was not unusual for certain, but not all, contracts to be denominated in a hard or more globally liquid currency, notwithstanding that this was neither parties’ functional currency nor a globally traded commodity.

We suggest that the paragraph should focus on the particular transaction (rather than the goods involved, the counterparties, their geographic locations or functional currencies etc) and whether the economic characteristics and risks of the embedded foreign currency derivative are closely related to those of the host contract. In conclusion, we suggest that the paragraph be replaced with the following.

“(d)(iii) A currency that is commonly used in contracts to purchase or sell the particular non-financial items in the circumstances that the particular transaction takes place (i.e. the foreign currency characteristics included in the contractual terms of the host contract would be included by most entities performing the same transaction for commonly understood and

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expected business reasons in the particular circumstances and not for achieving a desired accounting result or for speculative purposes)”.

Although not contemplated in the proposed amendment, we would welcome clarification on the identification of a substantial party to the contract. In particular, we would welcome the inclusion of the guidance in Implementation Issue No. B32 of the FASB staff’s Derivative Implementation Group, which clarifies that in certain circumstances the parent entity could be regarded as being a substantial party to the contract even though the subsidiary is the legal contracting party.

Question 2

Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

Yes, we agree with the proposed transition provisions and effective date for the issues as described in the exposure draft.

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