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Electronically to the IASB website ([www.iasb.org](http://www.iasb.org)) using the 'Open to comment' page

Dear Sir

## **EXPOSURE DRAFT OF PROPOSED ANNUAL IMPROVEMENTS TO IFRS**

Eskom is pleased to comment on the above exposure draft. We support the Board's intention to amend the standards of IFRS on an annual basis.

Our responses to the specific questions are attached.

If you have any questions concerning our comments, please do not hesitate to contact Jacob Buys at [jacob.buys@eskom.co.za](mailto:jacob.buys@eskom.co.za) or at +27 011 800 4703.

Your sincerely

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**FINANCE DIRECTOR**

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**COMMENTS ON EXPOSURE DRAFT OF PROPOSED ANNUAL IMPROVEMENTS TO IFRSs - EXPOSURE DRAFT OCTOBER 2007**

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

**a. Question 1  
Restructuring of IFRS 1**

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

We support the restructuring IFRS 1 which will result in moving some transitional provisions relating to particular IFRSs from the main body of the IFRS to appendices without altering the technical content of IFRS 1.

**2. Proposed amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations***

**a. Question 2  
Plan to sell the controlling interest in a subsidiary**

***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 support the proposal to amend IFRS 5 by adding paragraph 8A to clarify that assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

**b. Consequential amendment from IAS 41  
*Point-of-sale costs***

We support with the amend of 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'.

**3. Proposed amendments to IFRS 7 *Financial Instruments: Disclosures***

**a. Question 3  
Presentation of finance costs**

***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 the guidance on implementing IFRS 7 to resolve the potential conflict between that guidance and IAS 1.

**b. 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*

We agree with the proposal 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.

**4. Proposed amendments to IAS1 *Presentation of Financial Statements***

**a. Question 4**

**Statement of compliance with IFRSs**

***Do you agree with the proposal to require an entity that cannot make an unreserved statement of compliance with IFRSs to describe how its financial statements would have been different if prepared in full compliance with IFRSs? If not, why?***

We agree with the importance of an entity being able to state that they comply with IFRS.

We however think that if an entity is not able to make an explicit and unreserved statement to that effect that in practice it may be not possible to describe how its reported financial position and performance would have been different if it had complied with IFRS. We are therefore not convinced that the addition of paragraph 16 is practical.

**b. Question 5**

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

***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 found the change in wording difficult to understand and it appears to be contrary to the framework.

**c. Question 6**

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

***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 IAS 1 to address the inconsistent guidance in IAS 1 regarding the current/non-current classification of derivatives.

## **5. Proposed amendment to IAS 2 *Inventories***

### **a. Consequential amendment from IAS 41**

#### *Point-of-sale costs*

We agree with the proposal 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'.

## **6. Proposed amendment to IAS 7 *Statement of Cash Flows***

### **a. Consequential amendment from IAS 16**

#### *Sale of assets held for rental*

We agree with the 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.

We however think that the amendment should be in the format of a principle rather than a rule based amendment.

## **7. Proposed amendments to IAS8 *Accounting Policies, Changes in Accounting Estimates and Errors***

### **a. Question 7**

#### **Status of implementation guidance**

***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 IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to clarify the status of implementation guidance.

## **8. Proposed amendment to IAS 10 *Events after the Reporting Period***

### **a. Question 8**

#### **Dividends declared after the end of the reporting period**

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

## **9. Proposed amendments to IAS 16 *Property, Plant and Equipment***

### **a. Question 9 Recoverable amount**

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

### **b. Question 10 Sale of assets held for rental**

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

We agree with the Board’s proposal to amend IAS 16 to address presentation issues arising from assets held for rental to others that are routinely sold in the course of its ordinary activities.

Our comment to the proposal of the consequential amendment to IAS 7 is included in the section for IAS 7

### **c. Consequential amendment from IAS 40 *Property under construction or development for future use as investment property***

We agree with the Board’s proposal 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.

## **10. Proposed amendments to IAS 17 *Leases***

### **a. Question 11 Classification of leases of land and buildings**

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

### **b. Question 12 Contingent rent**

***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 in order to achieve consistency in the treatment of contingent rent for finance and operating leases.

## **11. Proposed amendment to the guidance on IAS 18 Revenue**

### **a. Question 13 Costs of originating a loan**

***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 Board's proposal to amend the guidance accompanying IAS 18 Revenue to remove an inconsistency with IAS 39 so that that the accounting treatment of financial asset origination fees are those defined in IAS 39.

## **12. Proposed amendments to IAS 19 Employee Benefits**

### **a. Question 14(a) Curtailments and negative past service costs**

***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 support the proposal to amend IAS 19 in respect of plan amendments that clarifies 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.

### **b. 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 paragraph.

### **c. Question 15 Plan administration costs**

***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 Board's proposal to amend the definition of return on plan assets in IAS 19 to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation.

**d. Question 16**

**Replacement of term 'fall due'**

***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 the term 'fall due' in the definitions of short-term employee benefits and other long-term employee benefits.

**e. Question 17**

**Guidance on contingent liabilities**

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

We agree with the proposal to remove from IAS 19 the reference to recognition in relation to contingent liabilities.

**13. Proposed amendments to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance**

**a. Question 18**

**Consistency of terminology with other IFRSs**

***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 amend IAS 20 to conform terminology used by IAS 20 to the equivalent defined or more widely used terms.

**b. Question 19**

**Government loans with a below-market rate of interest**

***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 remove an inconsistency with IAS 39 so 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.

#### **14. Proposed amendment to IAS 23 *Borrowing Costs***

- a. **Question 20**  
**Components of borrowing costs**

***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 IAS 23 *Borrowing Costs* (as revised in 2007) to refer to the guidance in IAS 39 on effective interest rate when describing the components of borrowing costs.

#### **15. Proposed amendment to IAS 27 *Consolidated and Separate Financial Statements***

- a. **Question 21**  
**Measurement of subsidiary held for sale in separate financial statements**

***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 IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2007) to require investments in subsidiaries that are accounted for in accordance with IAS 39 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).

#### **16. Proposed amendments to IAS 28 *Investments in Associates***

- a. **Question 22**  
**Required disclosures when investments in associates are accounted for at fair value through profit or loss**

***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 amend IAS 28 to clarify the disclosures required of an investor in an associate that accounts for its interest in the associate at fair value in accordance with IAS 39 with changes in fair value recognised in profit or loss.

**b. Question 23**  
**Impairment of investments in associates**

***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 Board's proposal to amend IAS 28 to clarify the circumstances in which an impairment charge against an investment in an associate should be reversed.

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

**a. Question 24**  
**Consistency of terminology with other IFRSs**

***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 amend IAS 29 to update the description of historical cost financial statements in paragraph 6 and to conform terminology in IAS 29 to the equivalent defined or more widely used terms.

**18. Proposed amendment to IAS 31 *Interests in Joint Ventures***

**a. Question 25**  
**Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss**

***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 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 in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* with changes in fair value recognised in profit or loss.

## **19. Proposed amendment to IAS 32 *Financial Instruments: Presentation***

### **a. Consequential amendment from IAS 28 and IAS 31**

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

We agree with the proposal to amend IAS 32 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 joint ventures accounted for at fair value through profit or loss.

## **20. Proposed amendment to International Accounting Standard 34 *Interim Financial Reporting***

### **a. Question 26**

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

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

## **21. Proposed amendments to IAS 36 *Impairment of Assets***

### **a. Question 27**

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

***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?***

Yes we agree with the proposal to amend IAS 36 *Impairment of Assets* to require the same disclosures to be given for fair value less costs to sell as are required for value in use when discounted cash flows are used to calculate fair value less costs to sell.

### **b. Consequential amendment from IAS 41**

*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 *Agriculture* relating to the use of the term 'point-of-sale costs'.

## **22. Proposed amendments to IAS 38 *Intangible assets***

- a. Question 28(a)  
Advertising and promotional activities

***Do you agree that IAS 38 should emphasise that an entity should recognise expenditure on an intangible item as an expense when it has access to the goods or has received the services? If not, why?***

We agree with the proposal to amend IAS 38.

- b. 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 as suggested.

- c. 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?***

Yes we agree with the removal of the paragraph 98.

## **23. Proposed amendments to IAS 39 *Financial Instruments: Recognition and Measurement***

- a. Question 30  
Definition of a derivative

***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 so that contracts linked to non-financial variables specific to a party to a contract within the scope of IAS 39 would be classified as derivatives.

- b. Question 31(a)  
Reclassification of financial instruments into or out of the classification of at fair value through profit or loss

***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.

**c. 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.

**d. Question 32**

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

***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?***

Yes we agree with the proposal to remove the apparent conflict between paragraph 73 and the requirements of IFRS 8 *Operating Segments*.

**e. Question 33**

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

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

**f. Question 34**

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

***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 remove an inconsistency between paragraphs AG30(g) and AG33(a) with respect to embedded prepayment options that clarifies that prepayment options, the exercise price of which compensate the lender for loss of interest by reducing the economic loss from reinvestment risk, as described in paragraph AG33(a), are closely related to the host debt contract.

## **24. Proposed amendments to IAS 40 *Investment Property***

### **a. Question 35**

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

***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?***

Yes, we agree with the proposal to remove from the scope of IAS 16 property under construction or development for future use as an investment property and to include it within the scope of IAS 40.

### **b. Question 36**

**Consistency of terminology with IAS 8**

***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 alignment of terminology by amending paragraph 31 of IAS 40 to ensure consistency with the text of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

### **c. Question 37**

**Investment property held under lease**

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

## **25. Proposed amendments to IAS 41 *Agriculture***

### **a. Question 38**

**Point-of-sale costs**

***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 for consistency in the standards.

### **b. Question 39**

**Discount rate for fair value calculations**

***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?***

Yes, we agree with the principle to allow a pre-tax or post-tax rate according to the valuation methodology used to determine fair value.

**c. Question 40**

**Additional biological transformation**

***Do you agree with the proposal to remove the exclusion of 'additional biological transformation' from paragraph 21 of IAS 41? If not, why?***

No comment

**d. Question 41**

**Minor wording improvements: examples of agricultural produce and products**

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

No comment

**e. Consequential amendment from IAS 20: consistency of terminology with other IFRSs**

We agree with the proposal 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.