25 October 2011

Our ref: ICAEW Rep 101/11

Mr Hans Hoogervorst
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Mr Hoogervorst,

Improvements to IFRSs 2011

ICAEW is pleased to respond to your request for comments on *Improvements to IFRSs 2011*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

IMPROVEMENTS TO IFRSs 2011

Memorandum of comment submitted in October 2011 by ICAEW, in response to IASB exposure draft *Improvements to IFRSs 2011* published in June 2011.

Contents	**Paragraph**

INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the exposure draft *Improvements to IFRSs 2011* published by the IASB on 22 June 2011. A copy of which is available from this link.

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter which obliges us to work in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 136,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

4. The Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The Faculty's Financial Reporting Committee is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. The faculty also provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.

MAJOR POINTS

IAS 1 *Presentation of Financial Statements*

5. We welcome the clarification of the comparative requirements of IAS 1, particularly where there is a retrospective change in accounting policy. However, we do feel that the wording of the proposed new paragraph 38B is confusing and would benefit from some re-phrasing. The first sentence of the paragraph is clear, but the four sentences which follow it could in our opinion be simplified. It appears that the purpose of these sentences is to allow the preparer to provide additional comparatives for selected primary statements without having to extend all of them. This could be expressed more succinctly than is currently the case. In addition, the final sentence in paragraph 38B requires a preparer who has voluntarily chosen to present further comparatives in the primary statements, to also extend the related notes. We question the necessity of this provision. If the extension of the primary statement is voluntary then this already provides a level of information to users in excess of that required by IFRS – to require yet more additional information appears inequitable.

IAS 32 *Financial Instruments: Presentation* & IAS 16 *Property, Plant and Equipment*

6. We note that proposed new paragraph 97L of IAS 32 requires retrospective adoption. This is inconsistent with proposed new paragraph 81G of IAS 16 which does not make this stipulation. In order that the Improvements can efficiently be processed as a single suite of changes it would be better if the two could be aligned.

Other matters

7. Other matters: Following on from the observations above about transition, another Improvement that could usefully be made would be to the provide clarification around the definition of 'current period' as referred to in paragraph 24 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Error. According to paragraph 28(f) of IAS 8:

'when initial application of an IFRS has an effect on the current period or any prior periods, an entity shall disclose for the current period and each prior period presented, the amount of the adjustment for each financial statement line affected.'

Some commentators believe that this should be interpreted to mean that when a change in accounting policy has an effect on an accounting period the adjustment should then be disclosed (and conversely when there is no effect there is nothing to disclose). Where a new standard is adopted at the start of an accounting period, the effect on the current period is then the adjustment to the opening balance sheet. Following this the new standard is then applied and there is no further effect to disclose.

8. Some other commentators believe that the requirement is rather to disclose the effect on the current period based on what the results would have been had the old standard continued in use. In order to effect this an entity would need to keep its old systems running after the point of changeover to the new standard otherwise the effect on the current period could not be ascertained. This is clearly onerous, and in our opinion unnecessary, and while there is an impracticability exemption, it does not seem appropriate to rely on this. Therefore a useful additional Improvement would be to clarify that this paragraph is intended to carry the former, meaning. This Improvement is particularly important in light of the significant changes to IFRS in the pipe-line over the next few years.

9. We welcome the IAS 32 improvement to clarify that income tax relating to distributions to holders of an equity instrument and income tax relating to transaction costs of an equity transaction should be accounted for in accordance with IAS 12. However, in our opinion there is an inconsistency between the guidance in paragraph 52B and that in paragraphs 58 and 61A of IAS 12. In paragraph 52B, dividend payments are deemed transactions that are related to profit or loss, while one might conclude under paragraphs 58 and 61A that dividends are an equity transaction with shareholders. Given that IAS 32 is to be amended to clarify its reference to IAS 12, we feel that it would be useful to also resolve the inconsistency within IAS 12 at this time.

RESPONSES TO SPECIFIC QUESTIONS

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?

10. We largely agree. However, it would be useful if the wording of proposed new paragraph 38B to IAS 1 was clarified as set out above.

Question 2

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

11. We largely agree. However, it would beneficial for the transitional provisions for the Improvements to IAS 16 and IAS 32 to be aligned as set out above, at present these are inconsistent. We also note above useful additional Improvements that could be made to IAS 8 to ease the transition process more generally.

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