THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

24 November 2009

Our ref: ICAEW Rep 119/09

Your ref: ED/2009/11

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Sir David

IMPROVEMENTS TO IFRSs

The Institute of Chartered Accountants in England and Wales is pleased to respond to your request for comments on the Exposure Draft, 'Improvements to IFRSs', issued in August 2009.

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

Yours sincerely

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THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

ICAEW REPRESENTATION

ICAEW REP 119/09

Response to Exposure Draft issued by the IASB in August 2009 on Improvements to IFRSs

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the ICAEW) welcomes the opportunity to comment on the Exposure Draft ‘Improvements to IFRSs’, published by the International Accounting Standards Board.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

MAJOR POINTS

4. We are supportive of many of the proposals in the exposure draft and have responded below by exception only, i.e. we have commented on specific proposals only if we do not support them. The Board should therefore assume that we support the proposals not discussed below.

5. We would like to thank the Board for responding to our comments at an earlier stage regarding the reduction and simplification of the disclosures required by IFRS 7 *Financial Instruments: Disclosures*. We are fully supportive of the Board’s proposals in this area.

RESPONSES TO SPECIFIC QUESTIONS

6. As noted above, we have responded to specific questions and issues raised by the Board only where we have points of concern such that we do not support the Board’s proposals.

PROPOSED AMENDMENT TO IFRS 5

Application of IFRS 5 to loss of significant influence over an associate or loss of joint control in a jointly controlled entity

The Board proposed to clarify that an entity classifies as held for sale its interest in an associate or a jointly controlled entity when it is committed to a sale plan involving loss of significant influence or joint control.

ICAEW comments

7. We do not support this proposed amendment. We note the Board’s view, in paragraph BC2, that the loss of control of an entity and the loss of significant influence/joint control over an entity are economically similar events. We disagree with this view and consider, instead, that loss of control and loss of significant influence are economically dissimilar. For instance, a loss of control from, say, a 60% holding in entity X to a 30% holding, is economically different from a reduction in investment from, say, a 30% in Y

to a 15% holding. In the former case, the reporting entity (the group) loses control of X and therefore loses control of X's assets. The assets used to be consolidated but are not now. That is, they are sold or discontinued. They are replaced by a different asset (an investment). In the latter case, the asset (investment in Y) is not sold. It is merely re-measured. We assume here that proportional consolidation will be removed as an optional treatment for joint venture entities.

8. Thus, we do not agree that such planned reductions in interest should be classified as held for sale under IFRS 5.

PROPOSED AMENDMENT TO IAS 1

Clarification of statement of changes in equity

The Board proposes to amend IAS 1 to state explicitly that an entity shall present the components of changes in equity either in the statement of changes in equity or in the notes to the financial statements.

The Board also proposes a specific amendment to IAS 1 paragraph 107 such that an entity shall present, either in the statement of changes in equity or in the notes, the amount per share of dividends recognised as distributions to owners during the period.

ICAEW comments

9. We agree with the Board's proposal that much of the detail in the statement of changes in equity could be presented in the notes. However, we consider that the proposed amendment should be clear that the statement of changes in equity would still include a reconciliation showing a minimum of:

   - opening equity in total
   - total comprehensive income
   - the effects of retrospective application and retrospective restatements arising from IAS 8
   - transactions with owners in their capacity as owners
   - closing equity in total.

10. With regard to the specific proposal regarding dividend per share amounts, this would not be useful information in the case of distributions made by a wholly-owned subsidiary to its parent, merely adding clutter to their financial statements with little or no information-value added. Thus, we suggest that the amendment excludes distributions made by wholly-owned subsidiaries to their parents.

PROPOSED AMENDMENT TO IAS 27

Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor

The Board proposes to amend paragraph 38(b) of IAS 27. Instead of there being an option between carrying the investment at cost and carrying it in accordance with IAS 39 – the Board proposes a change such that the option would be between carrying the investment at cost and carrying it at fair value through profit or loss.

The Board also proposes to clarify that in its separate financial statements the investor shall apply the provisions of IAS 39 to test its investments in subsidiaries, jointly controlled entities and associates for impairment.

ICAEW comments

11. The impact of the proposed amendment to IAS 27 paragraph 38(b) is to prohibit the option to carry such investments as available for sale under IAS 39. We note that the Board has recently issued IFRS 9 *Financial Instruments* as the first of a three-part project to replace IAS 39. IFRS 9 sets out a revised approach to the classification and measurement of financial instruments but is incomplete with regard to the measurement of financial liabilities and impairment. IFRS 9 will not be mandatory until 2013. An exposure draft addressing impairment of financial instruments was issued recently.

12. We do not agree with the proposed restriction that such investments should be carried at fair value through profit or loss if they are not carried at cost. We consider that it is inappropriate to revise IAS 27 paragraph 38(b) until IFRS 9 is both complete and mandatory. In the intervening period, we consider that the appropriate treatment for carrying investments in an entity's separate financial statements is that the investments should be carried either at cost or in accordance with whichever of IAS 39 and IFRS 9 the entity complies with.

13. With regard to impairment, we agree that some clarification is required and that there is confusion in practice as to whether to apply IAS 36 or IAS 39. Similarly to our concern above, however, we do not consider that it is appropriate to require that the measurement of impairment of investments carried at cost is performed in accordance with IAS 39 until the Board has completed the second phase of its project to replace the impairment requirements of IAS 39.

PROPOSED AMENDMENT TO IAS 34

Significant events and transactions

Many users of financial statements have asked the Board to consider whether some disclosure requirements should be mandated in both interim and annual financial statements. In particular, users proposed mandating some disclosure requirements within IFRS 7 *Financial Instruments: Disclosures* for interim financial reporting.

The Board proposes an amendment to emphasise the disclosure principles in IAS 34 and to add further guidance to illustrate how to apply these principles.

Question 3 in exposure draft

The Board proposes changes to IAS 34 *Interim Financial Reporting* to emphasise its disclosure principles. It also adds to the guidance to illustrate better how to apply these principles. The Board published an exposure draft *Fair Value Measurement* in May 2009. In that exposure draft, the Board proposes that all of the fair value measurement disclosures required in IFRS 7 *Financial Instruments: Disclosures* for annual financial statements should also be required for interim financial statements. Do you agree that this proposed amendment is likely to lead to more useful information being made available to investors and other users of interim financial reports? If not, why? What would you propose instead and why?

ICAEW comments

14. We do not agree with this proposal in the exposure draft *Fair Value Measurement*. The requirement in IAS 34 paragraph 16 that an entity shall disclose any events or transactions that are material to an understanding of the current interim period should

capture the right level of disclosure without such additional detailed requirements. We consider that the proposal to provide all the financial instrument measurement disclosures required by IFRS 7 in the interim financial statements would result in the provision of far more detail than would usually be necessary to satisfy the principle in paragraph 16 of IAS 34. We note in particular the excessive and unnecessary burden such a requirement could place on non-financial institutions.

Question 4 in exposure draft

The Board proposes changes to IAS 34 Interim Financial Reporting. Do you agree that amending IAS 34 to require particular disclosures to be made in interim financial statements is a more effective way of ensuring that users of interim financial statements are provided with useful information? If not, why? What approach would you propose instead and why?

ICAEW comments

15. We agree that some clarification is required regarding disclosures made in interim financial statements. However, we do not consider that the exposure draft proposals setting out lists together with non-mandatory guidance are the right way forward nor do we consider that the improvements project is the appropriate mechanism to amend IAS 34.

16. We consider that a more appropriate route would be for the Board to establish a project to review the requirements for interim disclosures (and perhaps IAS 34 as a whole). Clear principles should be established from which specific requirements and examples would be derived.

PROPOSED AMENDMENT TO IAS 40

Change from fair value model to cost model - Question 5 in exposure draft

The Board proposes to amend IAS 40 *Investment Property* to remove and prohibit the requirement to transfer investment property carried at fair value to inventory when it will be developed for sale, to add a requirement for investment property held for sale to be displayed as a separate category in the statement of financial position and to require disclosures consistent with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Do you agree that the proposed amendment should be included within *Improvements to IFRSs* or should a separate project be undertaken to address this issue? If you believe a separate project should be undertaken, please explain why.

ICAEW comments

17. We do not believe that the proposed amendment should be included within the scope of the improvements project. It will have a significant impact on those property developers whose business models involve both developing properties for sale as well as renting them out as investment property.

18. Many development companies acquire substantial plots of land and then establish detailed plans regarding whether to develop the acquired land for sale or for rental at a later stage. IAS 40 requires such 'land banks' to be classified as investment property. The prohibition against transferring such land banks to inventories, as proposed in the exposure draft, would result in property developers no longer including revenue from their property development activities within their results. Instead, they would be required to apply IFRS 5 and exclude such development activity from their results from continuing operations. In our view, this would not provide a faithful representation of the activities of the business. Furthermore, it appears inconsistent with the recent

amendment to IAS 16 whereby rental assets are required to be transferred to inventory when they cease to be rented and are held for sale.

19. The current economic conditions have resulted in developers retaining properties as rental properties for longer periods of time, thus making classification issues more relevant. We note that property redevelopments, where the intention is to sell, may take many years to complete so it is important to establish which classification is most meaningful in these circumstances.

20. Our view is that the significance of the impact of the proposed amendments warrants further consideration as part of a broader IAS 40 amendment project, rather than as an annual improvement. We also consider that any project to amend IAS 40 should address the broader issues regarding reclassification described above.

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