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Standards Board

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Sir David Tweedie
Chairman
International Accounting Standards Board
1st Floor
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear David

Exposure Draft ED/2009/11 *Improvements to IFRSs*

The Australian Accounting Standards Board (AASB) is pleased to submit its comments on the abovenamed Exposure Draft. In formulating these comments, the AASB sought and considered the views of Australian constituents. The comment letters received are published on the AASB's website.

The AASB is generally supportive of the proposed amendments, however, some concerns and suggestions for improvement are included in our responses to the specific questions in the Exposure Draft.

Also noted in our attached comments are the issues that the AASB considers should be addressed in future improvements. These issues are:

- (a) whether IAS 16 *Property, Plant and Equipment* permits assets under construction to be measured at fair value and accordingly, whether such assets fall within the IAS 23 *Borrowing Costs* scope exclusion;
- (b) where an entity has other comprehensive income from discontinued operations and chooses to present two separate statements under paragraph 81(b) of IAS 1 *Presentation of Financial Statements*, whether the entity should show:
 - (i) all the line items in a single section/amount relating to discontinued operations; or
 - (ii) the items pertaining to discontinued profit and loss in the separate statement and the discontinued other comprehensive income items in the statement of other comprehensive income; and

- (c) that the IASB should consistently use the term 'impracticable' with the same meaning or formally revisit the definition.

The AASB's comments on the specific questions in the Exposure Draft are attached.

If you have queries regarding any matters in this submission, please contact Raymond Yu (ryu@asb.gov.au) or me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K M Stevenson', with a long horizontal flourish extending to the right.

Kevin M. Stevenson
Chairman

AASB's Specific Comments on IASB Exposure Draft ED/2009/11 *Improvements to IFRSs*

The AASB's views on the questions in the Exposure Draft are as follows:

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?

The AASB agrees with the IASB's proposals in general but has particular concerns outlined below.

Proposed amendments to paragraph 107 of IAS 1 *Presentation of Financial Statements*

Some Australian practitioners consider that it is ambiguous as to whether footnotes (k) and (l) of the illustrative example in IAS 1 illustrate notes to the financial statements that should be disclosed or whether they are explanations intended to help users understand the example [that is, in the nature of footnotes (b) and (h)]. The AASB considers that this should be clarified.

Proposed amendments to paragraph 38 of IAS 27 *Consolidated and Separate Financial Statements*

According to the Basis for Conclusions (paragraphs BC2-3), the Board's intention for paragraph 38 of IAS 27 is to clarify that in an entity's separate financial statements the investor should apply the provisions of IAS 39 *Financial Instruments: Recognition and Measurement* to test its investments in associates for impairment, and not to provide the option for measuring an entity's investment at cost under IAS 36 *Impairment of Assets*.

However, the manner in which the proposed amendment is worded seems to restrict the use of cost for measuring interests in subsidiaries in separate financial statements to the circumstances outlined in IAS 39 *Financial Instruments: Recognition and Measurement*. This proposed amendment needs to be clarified to ensure that it does not restrict the use of cost for investments in subsidiaries in separate financial statements to the circumstances outlined in IAS 39 – that is, only when they do not have a quoted market price and whose fair value cannot be reliably measured [IAS 39.46(c)].

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?

The proposed effective date of 1 January 2010 for the proposed amendments to IFRS 5 may not give the IASB enough time to consider the submissions received and finalise an amendment. Additionally, there is unlikely to be enough time for other standard-setters to issue a revised version of IFRS 5 before the proposed effective date. This creates problems for jurisdictions where retrospective legislation (including accounting standards) is not allowed. The AASB sees no reason why the amendments cannot be applied from a later date, such as 1 July 2010.

Question 3

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?

The AASB is of the view that the IASB's proposals offers insignificant improvements to IAS 34. The proposals simply incorporates some new examples in the current paragraph 17 of IAS 34 (which lists out examples of disclosures required by current paragraph 16) and recast those examples as requirements under a new heading – 'significant events and transactions'. The AASB considers that, under the current IAS 34, preparers of financial reports would already consider the examples in current paragraph 17 when preparing interim financial reports and the AASB is of the view that the proposed changes offer minimal or no benefit.

The AASB considers that the proposed paragraph 15A would add little to a reader's understanding of the disclosure principle underlying IAS 34, and the relationship between materiality and the proposed new notion of 'relatively insignificant updates' is not clear.

The AASB notes the proposed removal of the references to 'materiality' from paragraph 16A. It would be helpful if the Basis for Conclusions could make clear that the materiality test still applies, because some constituents may interpret removal of the references to materiality as meaning that materiality would no longer apply in relation to these disclosures.

As stated in the AASB's submission on the IASB Exposure Draft ED/2009/5 *Fair Value Measurement*, the AASB disagrees with the proposed amendment to IAS 34 to require all the disclosures in paragraphs 56-59 and paragraph 61 of the proposed Standard for an interim reporting period. The AASB strongly believes that the IASB should adhere to the existing

disclosure principle of IAS 34 (that is, that significant changes from the previous annual financial statements should be shown) instead of mandating disclosures which may be excessive. For example, the AASB considers that, unless there is a significant change in the valuation technique applied since the prior annual reporting period, the disclosure of the methods and inputs used in the fair value measurement of assets and liabilities under paragraph 57(d) would be unduly onerous. The AASB is of the view that these disclosures would better serve as examples.

Question 4

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?

Consistent with our response in Question 3, the AASB is of the view that amending IAS 34 to require particular disclosures to be made in the interim financial statements in proposed paragraph 15B is a departure from the existing underlying disclosure principle that significant changes be shown. The AASB considers that the proposed paragraph 15B disclosures would be better presented as examples rather than being mandated and that this would be consistent with the aims outlined in paragraph BC1.

On a separate issue, the AASB does not understand the reason for proposing to delete 'issuances' from subparagraph 16A(e). The IASB should explain in its Basis for Conclusions why information about issuances is not as important as repurchases and repayments of debts and equity securities.

Question 5

The Board proposes to amend IAS 40 *Investment Property* to remove 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.

The AASB is concerned that piecemeal changes to IAS 40 could result in a conceptually incorrect outcome. The AASB is of the view that an investment property that does not meet the criteria to be classified as held for sale should not apply disclosures from IFRS 5. Some disclosures in IFRS 5 may not be relevant for an investment property that does not meet the criteria to be classified as held for sale [for example, paragraph 41(b) of IFRS 5 may not be applicable to investment property which management intends to dispose of in the long-term]. Also, the disclosure requirements for an entity that is subject to proposed paragraph 58A(b) would be more burdensome. An entity with lease transactions would already possibly have to apply IAS 40 and/or IAS 17 *Leases*, and it is unclear if entities applying proposed paragraph 58A(b) would also need to apply the disclosure requirements in IAS 40 and/or

IAS 17. Hence, the AASB recommends that the IASB either widens the scope and makes amendments accordingly to IFRS 5 to accommodate investment properties that are caught by proposed paragraph 58A(b) or undertakes a separate project to address this issue. If the IASB proceeds with the proposed amendments, the AASB recommends the following drafting amendments to proposed paragraphs 58 and 58A (with proposed mark-ups accepted):

“58 ~~When an entity decides to dispose of an investment property, it continues to treat the property as an investment property until it is derecognised (eliminated from the statement of financial position), and does not treat it as inventory. Similarly, if~~ If an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

58A An entity that decides to dispose of an investment property does not treat it as inventory. An entity that decides to dispose ...”

The first sentence of proposed paragraph 58 has been amended and incorporated into a first sentence for proposed paragraph 58A because it improves the flow from proposed paragraph 58 to proposed paragraph 58A. Also, the AASB is of the view that it can be assumed that an entity that decides to dispose of investment property will continue to treat the property as investment property until it is derecognised and therefore it is unnecessary to specify the treatment.

Additional points for future improvements

Assets under Construction

IAS 23 *Borrowing Costs* scopes out assets carried at fair value. Accordingly, an entity carrying an asset at fair value that would otherwise be a 'qualifying asset' is not required to capitalise borrowing costs to that asset.

The AASB has found that there are differing views about whether IAS 16 *Property, Plant and Equipment* permits assets under construction to be measured at fair value and accordingly, whether such assets fall within the IAS 23 scope exclusion. Some constituents read 'measurement after recognition' to be measurement after the asset is complete (that is, the asset is not under construction) and other constituents read it as measurement after any cost has been recognised and hence may apply the revaluation model to assets under construction. The IASB should clarify what 'after recognition' means and hence whether assets under construction can therefore be fair valued. This was also an issue with investment property under construction, which the IASB decided to clarify when it issued *Improvements to IFRSs* in May 2008, updating IAS 40 *Investment Property* to clarify that investment property under construction can be fair valued.

Disclosure of discontinued operations in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Paragraph 33 of IFRS 5 states that "An entity shall disclose:

- (a) a single amount in the statement of comprehensive income compromising the total of:
 - (i) the post-tax profit or loss of discontinued operations and
- ..."

Paragraph 33A of IFRS 5 states that "If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of IAS 1 (as revised in 2007), a section identified as relating to discontinued operations is presented in that separate statement."

From the above paragraphs, a reader could reasonably presume that all items pertaining to discontinued operations should be presented within the separate statement. However, the AASB considers there will be cases where an entity has other comprehensive income from discontinued operations and chooses to present two separate statements under paragraph 81(b) of IAS 1. The IASB should clarify if the entity should show:

- (a) all the line items in a single section/amount relating to discontinued operations; or
- (b) the items pertaining to discontinued profit and loss in the separate statement and the discontinued other comprehensive income items in the statement of other comprehensive income.

Definition of 'impracticable' in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

The AASB is of the view that the IASB should formally revisit the definition of 'impracticable'. Recent references in exposure drafts (for example, paragraph BC8(a) of Exposure Draft *Discount Rate for Employee Benefits* and paragraphs BC11-BC12 of Exposure Draft *Additional Exemptions for First-time Adopters*) presume a different meaning for 'impracticable' from its defined meaning in IAS 8 which is "applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so".

In the AASB's view, these references in the exposure drafts are justifying why applying changes in accounting policy retrospectively is not practical or does not satisfy a cost-benefit test rather than why it is 'impracticable' (which the AASB understands to be a higher hurdle).