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International Financial Reporting Committee
(IFRIC)
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

Exposure Draft of Proposed Improvements to IFRSs

The Institute of Professional Accountants of Russia (hereinafter — IPAR) appreciates the opportunity to submit comments on the ***Exposure Draft of Proposed Improvements to IFRSs***. IPAR supports IASB's activity to improve IFRS by making annual amendments related to non-urgent but necessary issues within them.

We agree with the proposed amendments, except as noted below. We do not agree with the proposed amendment to paragraph AG33 (d) (iii) of IAS 39 as rather than clarifying and simplifying the requirements of the above paragraph, the amendment effectively makes it non-applicable in all except very rare cases, and therefore would require separation of embedded foreign currency derivatives in a significantly larger number of situations, which we believe is not the intention of the Board. We urge the Board not to approve this amendment.

We also propose changes to the suggested wording in certain other amendments.

Our detailed answers to Questions stated in the Invitation to Comment are provided below. We have structured our answers by the Standards proposed to be amended.

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?

Proposed amendment to IFRS 2 Share-based Payment

We support the proposed amendments contained in the Exposure Draft. We believe these proposals will remove the ambiguity concerning the scope of IFRS 2. We understand that the Board issuing revised IFRS 3 did not intend to include formation of joint ventures or business combinations under common control in the scope of IFRS 2.

Proposed Amendment to IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations

We agree with proposed amendments as they clarify that no additional disclosures are required for non-current assets (or disposal groups) classified as held for sale or discontinued operations after the date of such classification apart from those specifically required for such assets or disposal groups. We believe that these amendments only confirm the initial intention of the Board and are consistent with existing practice.

Proposed Amendments to Basis for Conclusions on IFRS 8 Operating Segments

In its proposals the Board says that some respondents read the current paragraph BC35 in the Basis for Conclusions to IFRS 8 *Operating Segments* as contradicting long-standing interpretations of SFAS 131 *Disclosures about Segments of an Enterprise and Related Information*. We support the Board's intention not to create an unintended difference from US practice under SFAS 131 and therefore agree that amendments are necessary.

First of all, we note that, unlike its predecessor IAS 14 *Segment Reporting*, IFRS 8 does not contain a definition of segment assets. All segment items are defined only indirectly, by reference to the information regularly provided to the chief operating decision maker. Therefore, the current wording of paragraph BC35 "…*measures of profit or loss and total segment assets should be disclosed to all segments regardless of whether those measures are reviewed by the chief operating decision maker"* indeed does not have a clear meaning in the context of IFRS 8 and creates ambiguity. Therefore we agree with the Board's proposal to amend BC35 and remove the above wording.

At the same time, the proposed paragraph BC35 states that "*...making no disclosure of segment assets would be in accordance with the IFRS in some cases.*" While agreeing with this approach, we note that the Basis for Conclusions does not form part of the IFRS. We believe that it is not obvious that this approach should be taken from purely reading the text of IFRS 8 without also reading the Basis for Conclusions; without this clarification, other approaches may be considered appropriate. For example, some may disclose zero as the measure of total segment assets in the case information about segment assets is not provided to the chief operating decision maker. The latter approach may lead to misinterpretation of information presented as segments with assets impaired to zero value will be disclosed in the same way as segments with assets that have positive values, but which are not reviewed by chef operating decision maker. Therefore, we believe that a clarification is needed in the text of IFRS 8, not only in the Basis for Conclusions.

Generally, we believe that it is not good practice to provide interpretations or clarifications of an IFRS using the Basis for Conclusions as it is not part of the IFRS, and is not part of the officially approved accounting standards in many countries where IFRSs are adopted. Therefore we suggest that a similar clarification is introduced to the text of IFRS 8. For example, the following changes could be proposed (new text is underlined and deleted text is struck through):

‘23 An entity shall report a measure of profit or loss ~~and total assets~~ for each reportable segment. An entity shall report a measure of liabilities and assets for each reportable segment if such an amount is regularly provided to the chief operating decision maker…’

Proposed Amendment to International Accounting Standard 7 Statement of Cash Flows

Generally, we agree with the amendment proposed as it is clear that the expenditures that are not initially recognized as assets are expenses and therefore may not be treated as cash outflows intended to generate income and cash flows outside of the current reporting period. However, in our view, the new wording proposed is somewhat inaccurate and may be viewed as a rule that replaces a principle. From the wording proposed some may conclude that cash flows arising from investing activities are important only because they relate to capitalized expenditures. At the same time, some cash outflows related to expenditures initially recognized as assets in the statement of financial position are properly recognized as cash flows from operating activities (for instance, cash paid for acquisition of inventories). However, the significant difference between those expenditures and expenditures related to investing activities is that the former are not intended to generate cash flows and income in long-term perspective. Therefore we believe that it is appropriate to add the new proposed text into paragraph 16 of IAS 7 rather than replace with it the wording that already existed. We propose to amend the original paragraph in IAS 7 as follows (new text is underlined):

’16 The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows, and are initially recognized as assets in the statement of financial position. If such expenditures are not initially recognized as assets they shall be presented within operating cash flows. Examples of cash flows arising from investing activities are:
(a) …’

Additional point to note:
Although we are informed that the Board does not request comments on matters not addressed in the exposure draft we would like to draw Board’s attention to existing inconsistence between paragraphs 6 and 16 in the current version of IAS 7. While definition of investing activities in paragraph 6 says that investing activities encompasses the acquisition and disposal of all investments not included in cash equivalents, paragraph 16 mentions that cash flows from investing activities do not include cash receipts from futures contracts, forward contracts, option contracts and swap contracts when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities. Therefore according to the paragraph 16 only some of investments not included in cash equivalents are classified as investing activities whereas paragraph 6 implies that all such investments represent investing activities of the entity. We believe that removal of such inconsistency is non-urgent but necessary issue and therefore propose the Board to include it in the next annual improvements project.

Proposed amendment to Appendix of IAS 18 Revenue

We agree with the proposed amendment and believe that the guidance provided will be useful. Please see also our answer to Question 3 below.

Proposed amendment to IAS 36 Impairment of Assets

We support the amendment proposed by the Board as we agree that '*meeting the aggregation criteria of similar economic characteristics permitted in IFRS 8 does not automatically result in groups of cash-generating units that are expected to benefit from the synergies of allocated goodwill'*.

Proposed amendments to IAS 38 Intangible Assets

We agree with the proposed amendments as they are consistent with IFRS 3 *Business Combinations* as revised in 2008.

Proposed amendments to International Accounting Standard IAS 39 Financial Instruments: Recognition and Measurement

Scope exemption of business combination contracts

Generally we agree with the purpose of the proposed amendments to eliminate the existing diversity in practice due to an unclear current wording of paragraph 2 (g) of IAS 39. However we believe that the revised wording does not fully eliminate the current uncertainty, and that the reasoning in the proposed Basis for Conclusions may introduce further unclarity. Further, we believe that the solution proposed by the Board is not adequately substantiated in the Basis for Conclusions and suggest to change the proposed approach.

First of all, the proposed Basis for Conclusions contains some wording that may introduce further unclarity. In particular, paragraph BC3 states: "*The Board decided that paragraph 2 (g)…should not apply to currently exercisable option contracts that* ***on exercise*** *will result in control over an entity. This is because such option contracts are excluded from the scope of IAS 39 by paragraph 2 (a).*" (emphasis added). This wording is not consistent with paragraphs 14 and 15 of IAS 27 that imply that currently exercisable option contracts may result in control even before they are exercised. Further, it is excessive exactly because currently exercisable option contracts are already scoped out by paragraph 2 (a) of IAS 39. We propose to delete this wording.

Further, the proposed paragraph BC4 states that "*…non-currently exercisable option contracts would not meet the definition of a business combination in IFRS 3.*" However such contracts may meet the definition of a business combination when exercised, just as forward contracts. If, on the other hand, the above wording was meant to say that these contracts would not meet the definition of a business combination *before they are exercised*, again, exactly the same is true of forward contracts. It is unclear therefore how paragraph BC4 helps to make a distinction between forward contracts and non-currently exercisable option contracts; we propose to delete this paragraph.

More importantly, we believe that the Basis for Conclusions fails to provide substantiation why forward contracts should be excluded from the scope of IAS 39, while non-currently exercisable option contracts should not. The purpose of paragraph 2(g), as described in BC2 as "*to ensure that the structure of an acquisition does not result in different accounting for the acquisition*" applies to non-currently exercisable option contracts to acquire a subsidiary just as it applies to forward contracts to acquire a subsidiary. We therefore propose to remove the word "*forward*" from the proposed paragraph 2 (g).

At the same time, in case the Board decides to stay with the currently proposed approach, we believe there is significant need to clarify the proposed wording, as the term "forward contracts" is not defined in IAS 39. We believe that use of this term may lead to lack of clarity in analyzing a number of different arrangements. For example:

- Often, a contract to buy and sell an acquiree is structured as a combination of a vendor's put option and an acquirer's call option with identical strike prices and exercise dates. This arrangement is binding for both parties and is effectively equivalent to a forward contract. However some may argue that the proposed scope exemption is not applicable to it because of the legal form of the transaction;
- On the other hand, sometimes forward contracts have a clause that allows one of the parties to withdraw from the deal without paying any penalty. In substance, therefore, such contracts are option contracts; however, some may argue that the scope exemption is applicable to these contracts because of their legal form.

Therefore, if the Board decides for the scope exemption to apply only to contracts binding for both the vendor and the acquirer, to provide better clarity, we propose to replace the words "*forward contracts*" with either "*binding contracts*" or "*contracts that are binding for both the vendor and the acquirer*" in paragraph 2 (g).

Application of the fair value option

We agree with the proposed amendments as we understand that application of paragraph 11A only to financial instruments with embedded derivatives within the scope of IAS 39 was originally intended by the Board.

Cash flow hedge accounting

We support the proposed amendments as they will eliminate an uncertainty in respect of the timing of the gains or losses on the hedging instrument reclassification from equity to profit or loss when the designated cash flow exposure being hedged differs from the financial instrument arising from the hedged forecast cash flows.

Bifurcation of an embedded foreign currency derivative

Although we support the Board's intention to clarify what the 'economic environment' is in determining whether a currency is commonly used in contracts to buy or sell non-financial items in order to remove the diversity in practice regarding the application of paragraph AG33(d)(iii), we believe that the proposed amendment does not achieve this objective and, on the contrary, **requires** separation of a foreign currency embedded derivative in virtually all cases where currently paragraph AG33(d)(iii) prohibits such a separation.

As stated in the proposed paragraph BC18, "*Paragraph AG33(d) is intended to prohibit separation of embedded foreign currency derivatives if they are integral to the contractual arrangement, ie they have been entered into for reasons that are clearly not based on achieving a desired accounting result or for speculative purposes.*" We fully agree with this objective of the Board. However the proposed amendment will result in the separation of embedded foreign currency derivatives which have been entered into for reasons that are clearly not based on achieving a desired accounting result or for speculative purposes.

The proposed amendment replaces the term 'commonly used' with a reference to one or more characteristics of a functional currency in paragraph 9 of IAS 21 *The Effects of Changes in Foreign Exchange Rates*. These characteristics are:

“(a) the currency:
*(i) that **mainly** influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and*
*(ii) of the country whose competitive forces and regulations **mainly** determine the sales prices of its goods and services.*
*(b) the currency that **mainly** influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).”* (emphasis added).

We believe that the examples of currencies in the proposed paragraph BC 19 of Basis for Conclusions are indeed helpful in clarifying the paragraph AG33 (d). However, under the proposed amendment some of these currencies, in particular liquid international currencies used by parties domiciled in small countries as a convenient means of exchange (paragraph BC19 (d)) and foreign currencies commonly used in local business transactions when, for instance, monetary amounts are viewed by the general population not in terms of the local currency (paragraph BC19 (f)), would not necessarily have one or more characteristics of a functional currency as set out in paragraph 9 of IAS 21. For example, there could be more than one common foreign currencies used in addition to the local currency.

Currently, within Russia contracts to purchase or sell non-financial items are widely denominated in the US dollar or the Euro (though all such contracts are settled in Russian Roubles). The current practice of application of paragraph AG33(d)(iii) for Russian companies is to consider both the US dollar and the Euro commonly used in transactions to purchase or sell non-financial items. However, for the vast majority of Russian companies, neither the US dollar nor the Euro would **mainly** influence their sales prices or costs of providing goods or services, and therefore neither of these currencies would possess any characteristic of the functional currency for the vast majority of companies in Russia.

As an example, premises rental agreements in Russia are commonly (but not primarily) denominated in US Dollars or the Euro as these currencies are often considered more stable than the Russian Rouble. Some of these agreements have a very long term, i.e. 10-20 years. Such agreements (as well the vast majority of agreements to purchase or sell non-financial items in Russia) are clearly not entered into with the purpose to achieve a desired accounting result or for speculative purposes. At the same time, the proposed amendment would require separation of a stream of foreign currency forwards embedded in such contracts, which would entail undue cost as it would involve estimating forward currency rates for very long periods, for which there are no active markets and therefore which requires a high degree of judgement e.g. in estimating long-term yield curves applicable to the particular transaction. We believe that the cost of such an exercise would far exceed any potential benefit for users of financial statements, and will make the financial statements less understandable.

For reasons stated above, and as the proposed amendment would have a widespread undesirable impact for companies in Russia and other countries with similar issues, **we strongly urge the Board not to issue this amendment**.

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?

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

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 do not think that inclusion of any additional indicators is necessary. However, we would like to propose adding words “*for the total amount of receivables and not only for the commission fee included into the price of goods sold or services rendered*” in the paragraph 21 (d) of Appendix to IAS 18 *Revenue* after the words “*the entity bears the customer’s credit risk*” as bearing a credit risk for the commission fees receivable does not indicate that the entity receiving them is acting as a principal rather than an agent. Therefore we propose to amend paragraph 21 of Appendix to IAS 18 as follows:

’21 …. Features that, individually or in combination, indicate that an entity is acting as principal include:
(a) …
...
(d) the entity bears the customer’s credit risk~~.~~ for total amount of receivables rather than only for commission fee included into the price of goods sold or services rendered.’

Sincerely,

Oleg M. Ostrovsky
General Director