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Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London
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7 November 2008

Dear Sir

Improvements to International Financial Reporting Standards - 2008

We are responding to your invitation to comment on the Exposure Draft of Proposed Improvements to IFRSs (the 'Exposure Draft') on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the Exposure Draft. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We thank you for the opportunity to comment on the IASB's Exposure Draft.

We believe that the Exposure Draft reflects the Board's objective of dealing with minor or specific issues as well as inconsistency in the standards and drafting improvement.

Appendix A to this letter sets out our specific responses to each of proposed amendments in the Exposure Draft. Part I of the Appendix relates to proposed amendments which we have significant comments. Part II of the Appendix relates to proposed amendments on which we agree in principle but may include certain comments relating to the drafting of the proposed amendments.

If you have any questions on the content of this letter, please do not hesitate to contact Richard Keys, PwC Global Chief Accountant (+44 20 7212 4555), or Moi-Lre Kok, (+65-6236 3178).

Yours faithfully

PricewaterhouseCoopers LLP

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Appendix A
Response to IASB's Exposure Draft on Improvements to IFRSs – August 2008

Part I – Proposed amendments in which PwC has significant comments

1. IAS 39 paragraph 2(g) – Scope exemption of business combination contracts

We understand from the paragraphs in the Basis for Conclusion that the Board intends to make the exemption under paragraph 2(g) restrictive. It intends to exclude from the scope of IAS 39, only a binding agreement between an acquirer and a seller of a business in which:

(i) the effective date of control of the business by the acquirer is at a future date; and
(ii) the consideration of the acquisition or the basis of how the consideration is to be derived is fixed in the agreement.

We urge the Board to consider giving a wider scope exemption for the reasons explained below.

One of the current interpretations of the existing paragraph 2(g) include both forward agreements and options contracts that upon execution or exercise, will result in a business combination at future dates, despite the fact that the risk profiles of a forward contract and an option contract are dissimilar. This is based on the view that a consistent approach should be applied to all contracts that will result in the same economic outcome (i.e. the consummation of a business combination). Furthermore, many believe it is inappropriate to record volatility in the income statement during the contract period for a contract that is entered into for the purpose of acquiring a business.

This view is similar to the rationale for the exemption for contracts to buy or sell a non-financial item in which the purpose of the receipt or delivery of the non-financial item is in accordance with the entity's expected purchase, sale or usage requirements.

Option contracts, in our view, that result in a business combination when exercised are an example of contracts to buy non-financial items. On exercise of the option, the items that will be recognised in the financial statements of the holder of the option (at the date of acquisition) are a collection of assets and liabilities, many of which will be non-financial, rather than an investment in equity shares (a financial asset). Accordingly, we would support a similar principle being applied.

If the Board proceeds with a narrow-scope exemption, we believe that the proposed wording for the amended standard does not clearly achieve this intention, especially when read together with IFRS 3 (revised), paragraph 37.

IFRS 3 (revised) paragraph 37 requires the consideration for a business combination to be measured at its fair value. Accordingly, the fair value changes of the forward agreement would be recognised in the income statement and included in the computation of the consideration for the business combination as of acquisition date.

In view of the requirements in IFRS 3 (revised), if the intention is to exclude from the income statement the fair value changes during the contract period, we would like the Board to amend the accounting treatment of such forward agreements explicitly in IFRS 3 instead.

Further, we believe that the Board's conclusion that currently exercisable option contracts are already outside the scope of IAS 39 by virtue of IAS 39 2(a), as reflected in BC 3, is flawed. We believe that this is not always the case. Under paragraph 2(a), IAS 39 is not applicable only if a business combination has already occurred. Based on the Board's recently proposed exposure draft for consolidation, a currently exercisable option is not in itself sufficient to give its holder power to control an entity. The existence of the option could indicate that its holder has other rights that combine with the option, to give the option holder power to control the entity. Therefore, the existence of currently exercisable option contracts may not necessarily result in a business combination and accordingly would not be exempted under 2(a), if the holder is not considered to already have power to control the other entity.

2. IAS 39 AG 33 – Bifurcation of an embedded foreign currency derivative

PwC have responded previously on the Discussion Paper on Reducing Complexity in Financial Instruments on this topic. In our response we believe that significant simplicity could be achieved in the area of embedded foreign currency derivatives

The requirement in IAS 39 to bifurcate on embedded foreign currency derivative often leads to results that can cause confusion for both users and preparers. For example, a Euro functional currency entity that sells goods in US dollars (USD) to a USD functional currency entity would not have to separate an embedded derivative whereas a company selling the same goods to a GBP-functional entity might have to do so. From the seller's perspective there is no economic difference in these two transactions and therefore the same accounting should result for both transactions. Furthermore, the analysis of foreign currency embedded derivatives (which require significant cost in terms of time and effort) yields very little benefit to users. Accordingly, we believe that it would be appropriate to eliminate the requirement to separate foreign currency embedded derivatives in business contracts that are simply denominated in a foreign currency.

From BC 18, we understand that the proposed amendments to AG 33 are "to prohibit the separation of embedded foreign currency derivative 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."

Although this is the intention of the Board, we believe that the proposed amendments to AG 33(d) do not achieve this objective. For example, if a Chinese or Russian company trades primarily domestically but has one export sale of goods contract to a non-U.S. customer denominated in U.S. dollars, the proposed amendment will require the embedded U.S. dollar derivative to be separately accounted for as the U.S. dollar does not display one or more of the characteristics of a functional currency (as set out in paragraph 9 of IAS 21) of the parties to the contract. Applying the indicators in BC 19 is also unhelpful in this example as the U.S. dollar is not a currency that satisfies any of the indicators.

Furthermore, the indicators listed in BC 19 are inconsistent with those set out in paragraph 9 of IAS 21. This creates further inconsistency and confusion.

Reiterating our recommendation in our previous response, we recommend the separation of only those foreign currency embedded derivatives that are (a) leveraged, (b) option-based or (c) inconsistent with a purchasing/sales strategy that an average market participant would rationally undertake for transactions of a similar nature.

3. IAS 39, paragraph 11A - Application of fair value option

We disagree with the proposed amendment that the fair value option available in paragraph 11A of IAS 39 applies only to financial instruments with embedded derivatives within the scope of IAS 39. We have previously responded to the IFRIC in November 2007 on this issue and reiterate our position here.

We believe that the fair value option should apply to both financial and non-financial host contracts with embedded derivatives. Limiting the application of the fair value option to only financial host contracts is inconsistent with both the wording of IAS 39 and the Board's rationale for permitting the fair value option to be used for contracts with embedded derivatives, as described further below.

Paragraph 11 of IAS 39 establishes that the host contract can be either a financial or a non-financial instrument. Similarly, paragraph 12 requires all types of hybrid contracts to be measured at fair value in cases where an embedded derivative is required to be separated but cannot be reliably measured. This paragraph also applies to both hybrid contracts where the host is a financial instrument and those where the host is not a financial instrument.

Paragraph 11A, that is located between these two paragraphs permits the use of the fair value option for contracts with embedded derivatives (provided the two conditions in paragraph 11A are met). We therefore interpret the word 'contract' in paragraph 11A in the same way as it is used in paragraphs 11 and 12 – i.e. to include both financial and non-financial host contracts. In our view, all types of contract should be included. It seems inconsistent to apply one interpretation of what can be a host contract to paragraphs 11 and 12, and a different one to their neighbour, paragraph 11A.

Further support for our view lies in the Basis for Conclusions to IAS 39 that sets out the reason why the Board permitted the fair option to be used for contracts with embedded derivatives. As outlined in BC 77A, the objective was to reduce the cost and complexity of complying with IAS 39. We believe that this objective applies equally to financial and non-financial host contracts and hence that the use of the fair value option is equally justified for both.

4. IAS 7, BC on IFRS 6 – Classification of expenditures on unrecognized assets

We agree with the Board that the existing wording in IAS 7 has led to diversity in practice in respect of the classification of expenditure as investing or operating. We also agree that the proposed amendment to paragraph 16 of IAS 7 is consistent with the definition of "Investing Activities" in paragraph 6 – "Investing activities are the acquisition and disposal of long-term assets..." and provides a principle that will eliminate the inconsistency in the existing guidance.

We agree that the proposed amendment would create a simple principle that is easy to apply, but we suggest that the Board also explore an alternative principle where expenditure is classified as operating or investing cash flow according to its substance, rather than whether the expenditure results in the recognition of an asset using asset recognition requirements contained in other standards.

For example, research and development expenditure and exploration and evaluation expenditure could be viewed as investing cash flows as they are often made to acquire or enhance long-term assets. The choice of accounting for exploration and evaluation (i.e. either recognised as assets on the balance sheet or as expense in the income statement) does not alter the nature of the expenditure. Expenditure made that does not acquire or enhance an asset, such as expenditure on promotion or advertising, should be classified as operating cash flows.

This alternative principle requires judgment in the classification of cash flows and the policy used to classify the cash flows and the material cash flows under each category should be transparent and be clearly disclosed to users.

5. Appendix to IAS 18 – Determining whether an entity is acting as a principal or an agent

We agree that the Board should include guidance on features or indicators in determining whether an entity is acting as a principal or an agent. We suggest that the Board consider whether the features or indicators should be included in the standard or in mandatory application guidance rather than in the illustrative examples, which do not form part of the standard.

We suggest that the guidance include an overriding principle that determining whether the entity is acting as a principal or an agent depends on the substance of the arrangement between the entity and its customers. Management should exercise judgment to determine the substance of the arrangement based on the facts and circumstances

We believe that the guidance should be applied by looking at the arrangement as a whole, i.e., an individual indicator or feature should not determine whether the entity is acting as a principal or an agent. For example, the assumption of credit risk alone does not necessarily make the entity the principal rather than the agent if there are other features of the arrangement that could mitigate the overall risks and rewards to the entity. Accordingly, we suggest the word "individually" in the sentence prior to part (a) be removed.

We further suggest that the following additional features be included in the guidance:

- The entity performs part of the services provided or modifies the goods supplied.
- The entity has discretion in selecting suppliers.

Both of these features are considered in guidance issued in the United Kingdom and in the United States and are useful considerations in determining whether an entity is acting as a principal or an agent. We believe that both of these can be as persuasive as many of the other factors that the Board has chosen to include.

Lastly, feature (d) should be amended to read "the entity bears the credit risk for non-payment by the customer" rather than "the entity bears the customer credit risk" and the phrase "for example by providing additional goods or services" for feature (c) should be removed as its meaning is unclear.

Part II – Proposed amendments in which PwC has comments in relation to the drafting of the proposed amendments

6. IFRS 2 – Scope of IFRS 2 and revised IFRS 3

We agree with the proposed amendment to clarify that business combinations among entities or businesses under common control and the contribution of a business on the formation of a JV are excluded from the scope of IFRS 2.

We further propose the removal of the following sentence in paragraph 5 as indicated:

"...However, an entity shall not apply this IFRS to ... business combination to which IFRS 3 Business Combinations (as revised in 2008), in a combination of entities or businesses under common control as described in paragraphs B1-B4 of IFRS 3, or the contribution of a business on the formation of a joint venture as defined by IAS 31 Interests in Joint Ventures. ~~Hence, equity instruments issued in a business combination in exchange for control of the acquiree are not within the scope of this IFRS.~~ However, equity instruments granted to employees... (therefore within the scope of this IFRS)."

The strikethrough sentence is a repetition of the preceding sentence and may confuse readers as it refers to only equity instruments issued in a business combination and does not include equity instruments issued in the formation of a JV. Both situations are (or are proposed) to be excluded from the scope of IFRS 2.

In addition, we would like to highlight that BC 2 refers to "common control transactions". We would propose the use of the words "combination of entities or businesses under common control" for consistency.

7. IFRS 5 – Disclosures of non-current assets (or disposal group) classified as held for sale or discontinued operations

We agree with the proposed amendment. However, we would like to include the following words (as underlined) in paragraph 5A:

"This IFRS ... Additional disclosures about such assets (or disposal groups) may be necessary to comply with the paragraphs 15 to 24 ~~general requirements~~ of IAS 1."

This amendment is to align with the discussion in BC 3 where "the Board also noted that the requirement of IAS 1 Presentation of Financial Statements on fair presentation and materiality also apply to such assets (or disposal group)". As IAS 1 contains many disclosures in relation to many aspects of a set of general purpose financial statements, we believe that making reference to paragraphs 15 to 24 which specifically deals with fair presentation and materiality would provide more clarity on the disclosure requirements of non-current assets (or disposal group) classified as held for sale. For example, paragraph 104 of IAS 1 (revised 2008) requires disclosure of the nature of expenses if the expenses are classified by function on the face of the income statement. Without specifying the paragraphs in IAS 1 that are applicable to disposal groups and discontinued operations, it may be interpreted that an analysis of expenses by their nature in relation to discontinued operations is required to be disclosed.

Furthermore, in BC 4, the Board appears to take the view that disclosures about the measurement of those assets and liabilities (within a disposal group) that are not within the scope of the measurement requirements of IFRS 5 are "normally provided in the other notes to the financial statements". It is unclear as to the specific disclosure requirements that BC 4 is referring to and how BC 4 is linked to the proposed paragraph 5A. For clarity, we propose the removal of BC 4.

8. IFRS 8 – Disclosure of information about segment assets

We agree with the Board's conclusion that segment assets should not be required to be disclosed if such information is not reviewed and monitored by the Chief Operating Decision Maker. However, we believe that to improve clarity, paragraph 23 of IFRS 8 should be amended directly rather than making amendments to the Basis for Conclusions.

In addition IAS 34, paragraph 16(g)(iv) requires the disclosure of segment information in relation of total [segment] assets for which there has been a material change from the amount disclosed in the last annual financial statements. A similar amendment should be made to this paragraph.

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Suggested amendments (deletion - 'strikethrough' and additions – 'underlined') are as follows:

IFRS 8, paragraph 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 <u>total asset or</u> liabilities for each reportable segment if such an amount is regularly provided to the chief operating decision maker..."

IAS 34, paragraph 16(g)(iv) – "total assets <u>(if such an amount is regularly provided to the chief operating decision maker)</u> for which there has..."

9. IAS 36 – Unit of accounting for goodwill impairment

We agree with proposed amendment.

For avoidance of doubt, we propose the removal of BC 150A as it indicates that "the objective of the change was to improve the disclosure of segment information, not to change the requirements of IAS 36 relating to the allocation of goodwill for impairment testing." We believe that this paragraph led to the divergence in views previously.