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COMMENT LETTER

To

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Date

7 November, 2008

By email - Commentletters@iasb.org

Dear Sir,

Exposure Draft of Proposed Improvements to IFRSs

We are pleased to have the opportunity to comment on the above Exposure Draft issued by the International Accounting Standards Board (IASB), on behalf of BDO International[1]

We believe the exposure draft is a vast improvement over the 2007 version as the matters addressed better fall within the scope of improvements.

Our comments on the IASB's proposals to amend the IFRSs as described in the exposure draft and any transitional provisions, together with our alternative views, are attached.

As regards effective dates, we would prefer a common start date for all changes made by the improvement project. However we appreciate the desire to tie those changes related to IFRS 3 (2008) to periods beginning 1 July 2009.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them further, please contact either Helen Thomson at + 32 2 778 0134 or Andrew Buchanan at +44 (0)20 7893 3300.

Yours faithfully,

Helen Thomson

BDO Global Coordination B.V.

[1] BDO International is a world wide network of public accounting firms, called BDO Member Firms, serving international clients. Each BDO Member Firm is an independent legal entity in its own country.

The network is coordinated by BDO Global Coordination B.V., incorporated in the Netherlands, with an office in Brussels, Belgium, where the International Executive Office is located.

IFRS 2 - Share based payment. Scope of IFRS 2 and revised IFRS 3.

We agree with the proposed adjustment to clarify that IFRS 2 does not apply to goods acquired as part of the net assets in a combination of entities or businesses under common control or the contribution of a business on the formation of a joint venture even though they do not meet the definition of a business combination in IFRS 3 (2008).

Currently, IFRS 2 does not apply to transactions in which an entity acquires goods as part of the net assets acquired in a business combination ***to which IFRS 3 Business combinations applies***. IFRS 3 (2004) does not apply to business combinations of entities or businesses under common control or the bringing together of separate entities to forma a joint venture. Thus, it does not seem certain that the transactions mentioned in the exposure draft were scoped out previously as, even if classified as business combinations by IFRS 3 (2004), they were not business combinations to which the IFRS applied. None the less we welcome the clarification this change brings.

IFRS 3 Business Combinations (2008) includes guidance on determining what is part of the business combination transaction, and what is a separate transaction to be accounted for in accordance with the relevant IFRS (e.g. share based payments awards IFRS 3, B56). Similar guidance would seem appropriate in these situations.

It might also be helpful if the position of other transactions were also clarified as regards IFRS 2. For example changes in a parent ownership interest in a subsidiary that does not result in a loss of control and acquisitions of associates.

IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations. Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations

We would prefer an approach where all disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations were set out in IFRS 5 and the disclosures in other standards did not apply.

If that is not possible then we support the approach as suggested in the Improvements exposure draft.

Given the IFRS 5 requirement to restate comparatives, it would be helpful to include clarification of the effect of operations being classified as discontinued in the current period.

Clarification of the effect on disclosures for the comparative period of non-current assets (or disposal groups) being classified as held for sale (when comparatives are not restated) would also be helpful in standards requiring additional onerous disclosures.

We question whether sufficient reference is made to discontinued operations in the proposed 5A, see the amended version below.

5A This IFRS specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other IFRSs do not apply to such assets (or disposal groups) or discontinued operations unless those IFRSs specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Additional disclosures about such assets (or disposal groups) or discontinued operations may be necessary to comply with the general requirements of IAS 1.

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IFRS 8 Operating segments - Disclosure of information about segment assets

We agree with the change to BC 35.

We note there appears to be an inconsistency between paragraphs 23 and 25 of IFRS 8. Paragraph 23 says:

- "An entity shall report a measure of profit or loss and total assets for each reportable segment." With no qualification as regards reporting to the chief operating decision maker and then
- "An entity shall report a measure of liabilities for each reportable segment if such an amount is regularly provided to the chief operating decision maker."

Paragraph 25 then says "The amount of each segment item reported shall be the measure reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance."

We suggest paragraph 23 is amended for consistency to clarify that a measure of total assets for each reportable segment is only required if such an amount is regularly provided to the chief operating decision maker.

We would also suggest that IFRS 8, paragraph 21(c) is amended to be consistent with paragraph 21(d).

IAS 7 Statement of Cash Flows - Classification of expenditures on unrecognised assets

The suggested amendment helps to draw a clearer distinction between money spent on long-term assets and expenses.

However consideration needs to be given to other implications of the change and these should be clarified, at the least, in a basis of conclusions to IAS 7.

For example:

1. Payment of deferred or contingent consideration on a business combination. The proposed wording refers to expenditures made for resources that <u>are</u> (rather than were) initially recorded as assets. Is the intention that only cash flows at the time the asset is recognised are treated as investing? Currently there is some divergence in practice in the treatment of deferred consideration as financing or as investing cash flows.

2. Under IFRS 3 (2008) subsequent changes in the amount of contingent consideration will not give rise to an additional asset – the proposed change would appear to prohibit cash flows in respect of incremental consideration being treated as investing.

3. Under IAS 23 revised entities will be required to capitalise interest in certain instances. Such capitalised interest will be initially recognised as an asset but the cash flow may well be deferred.

IAS 18 Revenue - Determining whether an entity is acting as a principal or as an agent

We believe the underlying principle on what constitutes a principal or an agent (i.e. exposure to the significant risk and rewards associated with the sale of goods or rendering of the services) should be included in the body of the standard. The features that indicate whether or an entity has such risks and rewards could then be expanded on in the appendix.

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Inventory risk is not a defined term. Adding a definition or examples (eg. exposure to the risks of damage, slow movement and obsolescence, and changes in suppliers' prices) would be helpful.

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?

Various standard setters already have guidance on principal vs. agent. E.g. EITF 99-19 in the USA and FRS Application note G in the UK which the IASB should consider.

IAS 36 Impairment of Assets - Unit of accounting for goodwill impairment test

We agree with the clarification that the largest unit goodwill is permitted to be allocated to is an IFRS 8, paragraph 5 Operating Segment before aggregation.

Guidance on impairment testing and the implications of changes in operating segment following a move from IAS 14 to IFRS 8 would also be helpful.

We also agree with the proposed transitional provision that the treatment is applied prospectively.

We would have thought some degree of disclosure would be helpful to users if cash-generating units are redrawn on a prospective basis so that the disclosures required by IAS 36 (e.g. Paragraph 134 and 135) are still comparable.

IAS 38 Intangible Assets - Additional consequential amendments arising from revised IFRS 3 and measuring the fair value of an intangible asset acquired in a business combination

We have no objection to the proposed amendments and transitional provision. We assume the amendments are to be applied prospectively in testing existing goodwill and not just goodwill arising in periods beginning 1 January 2010. We would welcome clarification of the transitional provision to make this clear.

IAS 39 Financial instruments - Recognition and Measurement: Scope exemption for business combination contracts.

We agree with the proposed amendment.
We note the discussion in BC 3 that currently exercisable option contracts, which on exercise result in the control of an entity, are excluded from the scope of IAS 39 by paragraph 2(a). We presume this is on the grounds that they meet the definition of an equity instrument of the group. Under IAS 27 the option is taken into consideration in establishing control but not in allocating amounts to the parent and non controlling interest unless they give present access to the benefits.

If the entity prepares separate financial statements under IFRS the exemption in IAS 39 paragraph 2(a) will not apply to the currently exercisable option contracts which will then fall to be accounted for as a derivative. However the exemption at paragraph 2(g) will still apply in those separate financial statements. Is that the intent?

We note the conclusion in BC 6 that paragraph 2(g) should not be applied to contracts to acquire an associate or similar transaction. Such contracts will presumably fall to be treated as derivatives as the exemption in paragraph 2(a) will not apply.

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IAS 39 Financial instruments - Recognition and Measurement: Application of the fair value option

Yes, we agree as this is a useful clarification

IAS 39 Financial instruments - Recognition and Measurement: Cash flow hedge accounting

Yes, we agree as this is a useful clarification

IAS 39 Financial instruments - Recognition and Measurement: Bifurcation of an embedded foreign currency derivative

We would welcome clarity in respect of this aspect of IAS 39 but do not believe the proposed change achieves this.

A comparison of the proposed AG33(d) to BC19 indicates that BC19(c) to (f) are considered characteristics of a functional currency under IAS 21 – the reasons were not always clear.

We also note that the existing AG33(d)(iii) refers to currency commonly used to sell items in the economic environment in which the transaction takes place. The guidance in the proposed BC 19 appears to limit this:

- To local rather than international transactions (BC 19(f)). However, in some economic environments, e.g. in some Asia Pacific countries, US $ is used in international trades but not internal business; or
- Small countries (BC19(d)).

What is the position as regards external trades in large countries which currently are exempt under the old AG33 (d) (iii) but not listed in the proposed BC 19?

We note that the transitional provisions that the amendments are applied prospectively. We were unsure whether this meant to pre-existing transactions and arrangements or those entered into after the commencement date.

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