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Response of the Accounting Committee of the Institute of Chartered Accountants in Ireland

Exposure Draft: Improvements to International Financial Reporting Standards

Dear Sir/Madam,

The Accounting Committee (AC) of the Institute of Chartered Accountants in Ireland welcomes the opportunity to comment on the proposals contained in the above document. The appendix to this letter provides answers to the detailed questions asked in the document.

Should you wish to contact us about any of our comments please feel free to do so.

Yours faithfully,

Mark Kenny

Secretary, Accounting Committee

Appendix

PROPOSED AMENDMENT TO IFRS 2 *SHARE-BASED PAYMENT*

The Board proposes to amend paragraph 5 of IFRS 2 to confirm that the contribution of a business on formation of a joint venture and common control transactions are not within the scope of IFRS 2 even though they do not meet the definition of a business combination in IFRS 3 *Business Combinations* (as revised in 2008).

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?

AC concurs with this proposed clarification of the scope of IFRS 2.

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?

AC agrees with the linking of the changes to the adoption of IFRS 3 (revised 2008). The amendments become effective for accounting periods beginning on or after 1 July 2009, with earlier application being permitted if IFRS 3 (revised 2008) is adopted early.

PROPOSED AMENDMENT TO IFRS 5 *NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS*

The Board proposes to amend IFRS 5 to clarify that IFRS 5 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) unless those IFRSs specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.

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?

AC has concerns with the above proposal as the required IFRS 5 disclosures (set out in paragraphs 30 and 41) in relation to items in scope of IFRS 5 are written in very general terms when compared to the disclosures that would otherwise arise if the items were not in scope of IFRS 5. Therefore, the level of information disclosed on possibly very significant disposal groups could be quite low. While AC appreciates that separate and perhaps different (due to the intent to sell in a one year timeframe) disclosure of information for held for sale assets (or disposal groups) is helpful, to only require what is set out in paragraphs 30 and 41 may in practice reduce significantly the level of information for users.

As explained in more detail below this would appear to be the case regardless of whether the individual items within the disposal group are measured in accordance with IFRS 5 or are scoped out of its measurement rules.

Where held-for-sale assets (or certain items in a disposal group) are within the measurement requirements of IFRS 5

For example, IAS 36 includes detailed disclosure requirements in relation to the assumptions and estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives. If the proposed amendment to IFRS 5 proceeds, it would mean that a company that has a disposal group with a substantial goodwill element would no longer be required to give all the specific assumption disclosures of IAS 36. Similar concerns would arise in relation to many other items that are measured under IFRS 5 where they form part of disposal groups, e.g. associates (IAS 28), joint ventures (IAS 31) etc. While IAS 1.125 (sources of estimation uncertainty) still applies, it is unclear why the more prescriptive requirement of IAS 36 would be disapplied in this instance.

Where held-for-sale assets (or certain items in a disposal group) are outside of the measurement requirements of IFRS 5.05

Paragraph 4 of the draft Basis for Conclusions states that 'The Board also noted that when a disposal group includes assets and liabilities that are not within the scope of the measurement requirements of IFRS 5, disclosures about measurement of those assets and liabilities are normally provided in the other notes to the financial statements and do not need to be repeated, unless they better enable users of the financial statements to evaluate the effects of discontinued operations and disposal of non-current assets (or disposal groups).'

However paragraph 5A of the ED is proposing the removal of the requirement to make any disclosures arising from these other standards (other than where those other standards specifically require disclosures in respect of held for sale items separately, which is a limited number). So it is not at all clear as to how BC4 might now presume that information on these items will appear elsewhere in the notes.

PROPOSED AMENDMENT TO IFRS 5 *NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS* (contd.)

For example:

(i) If financial assets and financial liabilities qualify for classification as held for sale under IFRS 5, paragraph 5A would appear to relieve the company from disclosing information about these items as would otherwise be required under IFRS 7. AC appreciates that IFRS 7 does require certain of its disclosures to be presented on the basis of the approach used by management to manage its risks, but certain other mandatory quantitative disclosures would no longer apply to the financial instruments in scope of IFRS 5. For example, information on sensitivity to financial risks and also disclosures of fair values of the items in scope of IFRS 5 would no longer be directly required. This sort of information remains, in AC's view, very relevant for these items.

(ii) If an entity had two defined benefit pension schemes, one of which forms part of an IFRS 5 disposal group, then the required IAS 19 disclosures would only apply to the scheme that was being retained in the business, a partial picture of the total position. In this instance it could be argued that some of the normal IAS 19 disclosures are less relevant given the intent to sell, but additional alternative disclosures may be appropriate, e.g. information on exit/transfer values.

As noted above, the requirements of paragraph 30 and 41 are very general in nature; it is only in the Basis for Conclusions, BC 17, that the wording becomes somewhat more specific, i.e. that 'Such information should assist users in assessing the timing, amount and uncertainty of future cash flows.' AC is of the view that, at a minimum, this wording should be added to the disclosure requirements of the standard itself i.e. into paragraph 30 or 41.

Finally, AC would welcome further expansion of paragraphs 30 and 41 to direct preparers to refer to the standards that would otherwise apply, if the items had not fallen into scope of IFRS 5, in determining the level and nature of disclosures now required. In particular, where there are significant judgements used in determining the IFRS 5 carrying value, the effects of the underlying assumptions and estimates would be described.

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?

AC agrees with the proposed prospective application provisions of any changes from 1 January 2010, with earlier application being permitted.

PROPOSED AMENDMENT TO BASIS OF CONCLUSIONS ON IFRS 8 *OPERATING SEGMENTS*

The Board decided to amend the Basis for Conclusions accompanying IFRS 8 to clarify its view on the disclosure of segment assets. Paragraph BC35 sets out the reasons for the Board's decision to require a measure of segment profit or loss and segment assets to be disclosed regardless of whether measures are reviewed by the chief operating decision maker. Some have read this paragraph as contradicting long-standing interpretations of SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* published in the US and hence creating an unintended difference from US practice under SFAS 131.

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?

On the basis that it is an unintended difference with US GAAP, AC would support the amendment. However, AC believes that the circumstances in which the chief operating decision maker does not look at any measure of segment assets would be very rare and would prefer that this was referred to in the basis for conclusions.

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?

There is no effective date in the exposure draft and on the basis that IFRS 8 is not yet effective and should be amended before its effective date, this seems appropriate.

PROPOSED AMENDMENT TO IAS 7 *STATEMENT OF CASH FLOWS*

In 2008, the International Financial Reporting Interpretations Committee (IFRIC) reported to the Board that practices differ for the classification of cash flows for expenditures incurred with the objective of generating future cash flows when those expenditures are not recognised as assets in accordance with IFRSs. Some entities classify such expenditures as cash flows from operating activities and others classify them as investing activities.

The board proposes to amend IAS 7 to state explicitly that only an expenditure that results in a recognised asset can be classified as a cash flow from investing activities

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?

AC concurs with 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?

AC agrees with the effective date proposals.

<u>PROPOSED AMENDMENT TO APPENDIX OF IAS 18 *REVENUE*</u>

The Board proposes to amend the guidance accompanying IAS 18 to address the issue of determining whether an entity is acting as a principal or as an agent. Paragraph 8 of IAS 18 specifies the accounting for amounts collected on behalf of a principal. However, IAS 18 does not provide guidance on determining whether an entity is acting as a principal or as an agent.

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?

AC welcomes the inclusion of guidance to assist in determining whether an entity is acting as principal or agent.

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?

AC notes that there are no specific transitional provisions included in the ED with regard to this proposed amendment to the Appendix to IAS 18, presumably because the Appendix is not part of the IAS 18 standard itself, i.e. it is intended as application guidance. While AC would not envisage that the proposed additional guidance will result in a change in accounting for most entities in practice, the IASB might, however, consider clarifying in the Basis for Conclusions that should it result in a change, then the amendment is effective immediately and IAS 8 applies in terms of the consequential prior year adjustment accounting.

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?

Additional factors that IASB might consider including in paragraph 21 of the Appendix, as indicators of the entity acting as principal, are that:

(i) the entity takes title to the goods;

(ii) the entity has discretion over the selection of suppliers;

(iii) the entity has not disclosed itself to be acting as agent; in that situation it would appear appropriate to have a rebuttable assumption that the entity is the principal;

(iv) the entity carries out work on the asset prior to its sale onward to another party.

PROPOSED AMENDMENT TO IAS 36 *IMPAIRMENT OF ASSETS*

The Board proposes to amend IAS 36 to clarify whether the largest unit permitted by IAS 36 is the operating segment level as defined in paragraph 5 of IFRS 8 *Operating Segments* before or after the aggregation permitted by paragraph 12 of IFRS 8.

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?

AC agrees with the proposed amendment to IAS 36. AC agrees with the Board's assertion that the lowest level of the entity at which management monitors goodwill is the same as the lowest level of operating segments at which the chief operating decision maker regularly reviews operating results as defined in IFRS 8.

AC would however suggest that the amendment specifically refers to aggregation in accordance with paragraph 12 of IFRS 8 for the avoidance of any doubt. AC suggests the following wording:

> "… not be larger than an operating segment as defined by paragraph 5 of IFRS 8 *Operating Segments* before ***application of the*** aggregation ***criteria in paragraph 12 of IFRS 8.***"

AC also notes that paragraph IN11 of IAS 36 currently states the following:

"(b) each unit or group of units to which the goodwill is allocated should:

i. represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and

ii. not be larger than an operating segment determined in accordance with IFRS 8 *Operating Segments*."

AC suggests that (b)(ii) of this paragraph in the Introduction should be revised in line with the proposed amendment to paragraph 80(b).

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?

AC notes that this amendment is ideally aimed at ensuring the rules for identification of cash-generating units are applied appropriately on adoption of IFRS 8. Therefore AC recommends that, if possible, the date for this amendment is aligned with the effective date for IFRS 8. AC appreciates that, due to time constraints, an effective date of 1 January 2009 may not be possible, but AC believes that this amendment should be made effective as soon as possible. AC also recommends that the amendment is applied prospectively from the effective date to impairment reviews, as opposed to annual periods.

AC also questions the need for early adopters, or entities that are in compliance with this amendment, to disclose the fact that they have adopted this amendment early, as AC believes that entities should be applying the definition of a cash-generating unit based on paragraph 5 of IFRS 8 on adoption of that standard.

PROPOSED AMENDMENTS TO IAS 38 *INTANGIBLE ASSETS*

(I) Additional consequential amendments arising from revised IFRS 3

The Board proposes additional amendments to paragraphs 36 and 37 of IAS 38 to clarify the effect of its decisions in IFRS 3 *Business Combinations* (as revised in 2008) on the accounting for intangible assets acquired in a business combination.

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?

AC agrees with the proposed changes to paragraphs 36 and 37.

AC notes that the final sentence of paragraph B40 of IFRS 3 (as revised in 2008) currently notes the following;

> "Paragraphs 36 and 37 of IAS 38 provide guidance for determining whether intangible assets should be combined into a single unit of account with other intangible or tangible assets."

AC notes that this sentence is inconsistent with the proposed revision to paragraphs 36 and 37 of IAS 38, as it suggests that an intangible asset may be combined into a single unit of account together with a tangible asset, whereas AC's understanding of the proposed amendment is that such intangible assets are recognised separately from goodwill as intangible assets.

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?

AC agrees with aligning the transition provisions and effective date of this amendment with those of IFRS 3 (revised 2008) to ensure consistency of application.

(II) Measuring the fair value of an intangible asset acquired in a business combination

The Board also proposes to clarify the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets.

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?

AC agrees with the proposed changes.

Paragraph 40

AC would appreciate if additional examples are included in paragraph 40 in relation to the factors that drive profitability of an asset, such as EBITDA and EBIT.

AC notes that when the term 'current market transactions' is used in IAS 39 such transactions are referred to as 'observable current market transactions' and suggests that the use of the word 'observable' would be suitable in this paragraph.

AC also notes that paragraph 40 refers to both 'recent transactions' and 'current market transactions' in the same context. AC suggests that consistent terminology is used within this paragraph.

<u>PROPOSED AMENDMENTS TO IAS 38 *INTANGIBLE ASSETS* (contd.)</u>

Paragraph 41

AC notes that the term ‘current transactions’ is used in this paragraph. AC suggests that this terminology is consistent with that used in paragraph 40, i.e. ‘current market transactions’.

AC suggests that paragraph 41 includes a reference to the fact that such techniques are used where no active market exists for an intangible asset. AC suggests the following wording:

> “Where no active market for an intangible asset exists, entities that are involved in the purchase and sale of intangible assets may have developed techniques for estimating their fair values indirectly.”

AC believes that, as the approaches are similar to the determination of a value-in-use under IAS 36, the IASB should consider whether a reference should be included in paragraph 41 to ensure that any assumptions used in the determination of the fair value of an intangible asset under this paragraph would involve the use of ‘reasonable and supportable assumptions’.

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?

AC suggests that the amendments to paragraphs 40 and 41 have the same effective date and transitional provisions as the amendments to paragraphs 36 and 37.

<u>PROPOSED AMENDMENT TO IAS 39 *FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT*</u>

The Board proposes to clarify:

- that the scope exemption in paragraph 2(g) applies only to binding (forward) contracts between an acquirer and a vendor in a business combination to buy an acquiree at a future date;
- that the fair value option in paragraph 11A applies only to financial instruments within the scope of IAS 39 that contain embedded derivatives;
- when gains and losses on hedging instruments should be reclassified from equity to profit or loss as a reclassification adjustment for cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or for cash flow hedges of recognised financial instruments;
- what the 'economic environment' is in determining whether a currency is commonly used in contracts to buy or sell non-financial items and therefore is closely related to the host contract.

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?

AC agrees with the first three proposed amendments to IAS 39. However, as regards the fourth proposal (bifurcation of an embedded foreign currency derivative), AC has concerns whether the amendment addresses the issues that were originally raised with IFRIC. These issues were:

(i) in determining whether a particular currency was 'commonly used' should transactions denominated in the currencies set out in AG33(d)(i) and (ii) be excluded?

(ii) what percentage of transactions should be assigned to the term 'common'?

(iii) what is meant by an 'economic environment'?

(Source: IFRIC Meeting Note May 2007)

Amending AG33(d)(i) to now refer to IAS 21.09's criteria for functional currency does not fully resolve/address these issues and arguably this proposed revision makes the requirements more difficult to apply in practice. In addition, the list of functional currency indicators in IAS 21.09 (only one of which must be met) differs to the factors that are included in BC19(c) – (f) (on the proposed amendments), which include a wider range of currencies that would be considered 'integral' to a contract and therefore not requiring separation of embeddeds. The IAS 21.09 factors were written in the context of determining, using judgement in assessing all the various indicators, the most appropriate overall functional currency for an operating entity. These factors were not written in the context of a particular contract and therefore AC would have concerns that meeting any one of these criteria will not necessarily work in practice. AC suggests that it would instead be helpful to move the examples given in BC19 and put them into the standard itself.

As explained in BC18 (on the proposed amendments), the standard is attempting to ensure that separation of foreign currency embeddeds is prohibited where they are integral to the contract and not included to either achieve a particular accounting result or for speculative purposes. AC would welcome the inclusion of this statement, clarifying the meaning of 'integral to the contract', in the standard itself. In addition, AC is of the view that where particular products in a marketplace are generally contracted in a single currency (i.e. it is difficult/impossible to use a different currency), then it would be reasonable to allow an entity with such a contract to avoid separation of any foreign currency embedded that would arise.

PROPOSED AMENDMENT TO IAS 39 *FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT* (contd.)

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?

AC is of the view that the proposed amendments/clarifications will not amount to significant changes in practice and therefore the proposed prospective transition rules are appropriate.