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Hans Nailor
Accounting Standards Board
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9 September 2002

Dear Sir,

**Financial Reporting Exposure Draft 25 - Related Party Disclosures, and 27 - Events After the Balance Sheet Date**

The ICSA would like to express its thanks for being given the opportunity to respond to the above consultations.

In compiling its response, the Institute has sought and taken onboard, wherever such a view had been expressed, the views of its Members, who practice in the preparation of accounts to which the accounting standards relate, in positions across industry, the professions and the not-for-profit and local government sectors. We trust that the Accounting Standards Board ("ASB") will find the comments attached hereunder to be of interest and some use.

**Related Party Disclosures (FRED 25)**

ASB (i) Do you agree with the proposal to issue a new standard in the UK on related party disclosures, once the new IAS 24 is approved by the IASB?

Yes

ASB (ii) Do you believe that the ASB should consider any transitional arrangements?

It appears that no special transitional arrangements are anticipated (para 14 of Fred 25). Should any matters come to light as a result of the exposure period, both the IASB and ASB should consider this under its usual procedures.

ASB (iii) Do you believe that an accounting standard should require disclosure of the name of a controlling party and, if different, that of the ultimate controlling party? If the new IAS 24 does not requite disclosure, do you believe that a new UK standard should require this disclosure as set out in paragraphs 13A and 13B of the [draft] FRS?

Yes, this would be valuable information for many users that could be provided at little cost by preparers. The requirement in paragraph 13A and 13B should be included in a UK standard if IAS 24 fails to include the requirement. However, the ASB should press the IASB to include the requirement as such information would be of even greater value to international capital markets.

ASB (iv) Do you believe that an accounting standard should require disclosure of the names of transacting related parties?

Perhaps the proposal is sufficient as it stands, but it suggested that if left as it stands, that the matter is dealt with in a review of the standard after an appropriate period of time to see if the more exacting FRS 8 disclosure is needed by users.

ASB (v) Should the definition of related parties specifically refer to shadow directors? Should it also refer to persons acting in concert?

We would suggest

ASB (vi) Do you believe that an accounting standard should specify that disclosure is required of *material* related party transactions and give more guidance on materiality in the context of such transactions?

Yes, in the light of recent American financial scandals, I think the standard must be firmer on materiality and give appropriate guidance.

ASB (vii) Are there any other aspects of the draft standard that the ASB should request the IASB to review when finalising the revised IAS 24?

No

The IASB has asked commentators to respond to the following questions on the proposed changes to IAS 24:

IASB (i) Do you agree that the Standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations (see paragraph 2)?

Yes

'Management' and 'compensation' would need to be defined, and measurement requirements for management compensation would need to be developed, if disclosure of these items were to be required. If commentators disagree with the Board's proposal, the Board would welcome suggestions on how to define ‘management’ and ‘compensation’.

**IASB** (ii) Do you agree that the Standard should not require disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or a wholly-owned subsidiary that are made available or published with consolidated financial statements for the group to which that entity belongs (see paragraph 3)?

Yes

**Events after the balance sheet date (FRED 27)**

ASB (i) Do you agree with the proposal to issue a new UK standard on events after the balance sheet date, once the new IAS 10 is approved by the IASB and once the law is amended to permit its application?

Yes

ASB (ii) Do you believe that ASB should consider any other transitional arrangements?

It appears that no special transitional arrangements are anticipated (para 11 of Fred 27. Should any matters come to light as a result of the
exposure period, both the IASB and ASB should consider this under its normal procedures.

ASB (iii) Are there any aspects of the draft standard that ASB should request IASB to review when finalising the revised IAS 10?

No

We trust that the contents of this submission are self-explanatory, but should you require any further explanation, please contact the under-named on 020 7612 7041.

Yours faithfully

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The Technical Director
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11 September2002

Dear Sir,

**FRED 26: Earnings Per Share**

The ICSA would like to express its thanks for being given the opportunity to respond to the above consultation.

In compiling its response, the Institute has sought and taken onboard, wherever such a view had been expressed, the views of its Members, who practise in the preparation of accounts to which the accounting standards relate, in positions across industry, the professions and the not-for-profit and local government sectors. We trust that the Accounting Standards Board ("ASB") will find the comments attached hereunder to be of interest and some use.

ASB (i) Do you agree with the proposal to issue a new UK standard on earnings per share to replace FRS 14, as soon as the new IAS 3 is approved by the IASB?

Yes.

ASB (ii) Do you believe that ASB should consider any other transitional arrangements?

It appears that there are no special transitional arrangements are necessary (paragraph 18).

ASB (iii) Are there any aspects of the draft standard that the ASB should request the IASB to review when finalising the revised IAS 33?

No.

The IASB has asked commentators to respond to the following question on the proposed changes to IAS 33:

IASB (i) Do you agree that contracts that may be settled either in ordinary shares or in cash, at the issuer's option, should be included as potential ordinary shares in the calculation of diluted earnings per share based on a rebuttable presumption that the contracts will be settled in shares?

Yes.

IASB (ii) Do you agree with the following approach to the year-to-date calculation of diluted earnings per share (as illustrated in Appendix B, examples 7 and 12)?

- The number of potential ordinary shares is a year-to-date weighted average of the number of potential ordinary shares included in each interim diluted earnings per share calculation, rather than a year-to-date weighted average of the number of potential ordinary shares weighted for the period they were outstanding (ie without regard for the diluted earnings per share information reported diluting the interim periods).

- The number of potential ordinary shares is computed using the average market price during the interim periods reported upon, rather than using the average market price during the year-to-date period.

- Contingently issuable shares are weighted for the interim periods in which they were included in the computation of diluted earnings per share, rather than being included in the computation of diluted earnings per share (if the conditions are satisfied) from the beginning of the year-to-date reporting period (or from the date of the contingent share agreement, if later).

Yes.

One response we received from our Members, who is a seasoned accounting practitioner and lecturer, and who is well versed in making the sorts of calculations in the examples set out in Appendix 2 of the FRED, noted that examples 6, 7 and 10 are not easy to follow. For example 12, the calculations on the warrants were not understood for both the second quarter and the full year. We believe that some written descriptions are needed to support the figure work.

We trust that the contents of this submission are self-explanatory, but should you require any further explanation, please contact the under-named on 020 7612 7041.

Yours faithfully

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11 September2002

Dear Sir,

FRED 29: Property, Plant and Equipment - Borrowing Costs

The ICSA would like to express its thanks for being given the opportunity to respond to the above consultation.

In compiling its response, the Institute has sought and taken onboard, wherever such a view had been expressed, the views of its Members, who practise in the preparation of accounts to which the accounting standards relate, in positions across industry, the professions and the not-for-profit and local government sectors. We trust that the Accounting Standards Board ("ASB") will find the comments attached hereunder to be of interest and some use.

ASB (i) Do you agree with the proposal to issue new UK standards on property, plant and equipment and borrowing costs when the IASB issues the revised IAS 16, unless it becomes clear that further changes to IAS 16 are likely by 2005 as a result of the revaluation project?

Yes.

We are uncertain as to the wisdom of delaying the implementation of IAS 16 should the revaluation project be completed before 2005. The convergence of international accounting standards is causing harmonisation with a "moving target". Why should then IAS 16 be made an exception? Preparers are used to UITF adjustments to new standards and quick reviews of new standards (FRS 1). The revaluation project does not appear to be that major in relation to the issues in these two drafts.

ASB (ii) The international exposure draft on property, plant and equipment proposes that residual values used in the calculation of depreciable amount should be reviewed at each balance sheet date and revised to reflect current estimates. FRS 15 generally requires prices at the date of acquisition or latest valuation to be used; hence, depreciation expense on a historical cost basis is not reduced by inflation in residual values. Do you agree or disagree with the proposed international approach?

We do not agree with the international approach.

ASB (iii) IAS 16 does not address the use of renewals accounting in respect of certain infrastructure assets. Do you believe that the absence of the guidance in FRS 15 would prevent entities from using renewals accounting as a method of estimating depreciation? Should UK entities be permitted to continue to use renewals accounting?

We do not believe that we should allow the use of renewals accounting. Its use is presumably limited. It is not as clear as to when it is renewed as the estimate of an asset under the straight line basis of depreciation.

ASB (iv) What are your views on the differences between the requirements of FRS 15 and IAS 16 concerning revaluations (as described in paragraphs 10 to 17 of the Preface to the FRED)?

It appears that revaluation to fair value (IAS 16) is far simpler to apply than the FRS 15 method. However, FRS 15 is far better in requiring a maximum period between revaluations. Materiality (IAS 16) relies heavily on judgment and no guidance is provided on assessing materiality. Therefore IAS 16 is open to abuse.

IAS 16 is weak on both requirements and guidance on the basis of valuations. It is thought that an external qualified valuer should be required at appropriate intervals in particular.

Until international accounting standards have the equivalent of FRS 3 (currently under review internationally), then there are bound to be differences as regards paragraph 17 matters. It appears the revised FRS 15 will have differences with the revised IAS 16 for a period of time.

ASB (v) Are there any other aspects of the differences between the proposed standards and current UK accounting requirements that you wish to comment on?

No.

ASB (vi) Do you agree with the ASB's proposal, as a transitional measure (see paragraph 18 above), that the present exemption in FRS 15 in respect of insurance companies should be retained in a new UK standard based on IAS 16 revised pending the outcome of the IASB's projects on insurance and reporting financial performance?

Yes.

ASB (vii) The transitional arrangements for the first-time application of FRS 15 allowed an entity that does not adopt a policy of revaluation to retain carrying amounts reflecting previous revaluations instead of restating the carrying amounts to historical cost (see paragraph 19 above). Do you believe that a transitional arrangement should be included in a new UK standard to allow entities that adopted FRS 15's transitional arrangement to continue to recognise the carrying amounts under that arrangement?

Yes.

ASB (viii) Do you believe that ASB should consider any other transitional arrangements?

Should any matters come to light during the exposure period, then the ASB should consider them.

ASB (ix) Are there any other aspects of the draft standard on property, plant and equipment that the ASB should request the IASB to review when finalising the revised IAS 16?

No.

ASB (x) Do you agree that the capitalisation of borrowing costs should remain optional? If you had to choose between mandatory capitalisation and prohibition of capitalisation, which would you support and why?

Yes.

I would choose mandatory capitalisation as it would reflect the full capital cost of an asset.

ASB (xi) Do you agree that paragraph 5(e) of IAS 23, which allows certain exchange differences to be capitalised, should be deleted in the draft standard on borrowing costs?

Yes.

Capitalisation in these circumstances would be inappropriate and imprudent.

ASB (xii) What are your views on the difference between IAS 23 and FRS 15 referred to in paragraph 24 of the Preface to the FRED concerning borrowing costs eligible for capitalisation?

We prefer the FRS 15 approach.

ASB (xiii) Do you have any comments on IAS 23 that you wish the ASB to bring to the IASB's attention?

No.

The IASB has asked commentators to respond to the following questions on the proposed changes to IAS 16:

IASB (i) Do you agree that all exchanges of items *of property, plant and equipment* should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably (see paragraphs 21 and 21A of the [draft] FRS on property, plant and equipment)?

Yes.

IASB (ii) Do you agree that all exchanges of *intangible assets* should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably?

Yes.

IASB (iii) Do you agree that depreciation of an item of property, plant and equipment should not cease when it becomes temporarily idle or is retired from active use and held for disposal (see paragraph 59 of the [draft] FRS on property, plant and equipment)?

Yes.

We trust that the contents of this submission are self-explanatory, but should you require any further explanation, please contact the under-named on 020 7612 7041.

Yours faithfully

Wai Wong

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10 September 2002

Dear Sir,

**IASB proposals to amend certain international accounting standards**

The ICSA would like to express its thanks for being given the opportunity to respond to the above consultations.

In compiling its response, the Institute has sought and taken onboard, wherever such a view had been expressed, the views of its Members, who practise in the preparation of accounts to which the accounting standards relate, in positions across industry, the professions and the not-for-profit and local government sectors. We trust that the Accounting Standards Board ("ASB") will find the comments attached hereunder to be of interest and some use.

**IAS 1**

Question 1 Yes

We think that paragraphs 13 to 16 do appropriately cover all likely implications of a departure from IFRS or an interpretation of an IFRS in order to achieve a fair presentation of an entity's financial affairs.

Question 2 Yes

We are pleased to note that an outright prohibition of extraordinary items is proposed.

Question 3 Yes

We agree that this should be classified as a current liability because in these circumstances it was so at the end of the financial year.

Question 4 a Yes

This is the same principle as Question 3 above.

Question 4 b Yes

However, we are cautious about situations where the breach has not been rectified, but i the management's opinion it is probable that the breach will be rectified. This is potentially misleading if things do not go to plan. We believe the implications should be spelt out in the financial statements should this eventuality occur.

Question 5 Yes

We regard this as material information to all users of the financial statements.

Question 6 Yes

However, it is considered that such information in the UK would normally form part of the QFR. This information may therefore form part of another IFRS in the future.

**IAS 8**

Question 1 Yes

We agree that the only method now proposed possesses a qualitative characteristic and provides the most useful information for trend analysis.

Question 2 Yes

We agree that the distinction between fundamental errors and other material errors was too arbitrary.

**IAS 17**

Question 1 Yes

We agree with the conclusions, paragraphs A3 to A6.

Question 2 Yes

We agree with the elimination of the choice of expressing immediately such costs. We also agree that capitalisation should be strictly restricted to incremental and directly attributable costs.

**IAS 27**

Question 1 Yes

We broadly agree with the criteria, but we have concern about the interests of the minority interests, particularly where they are not entitled to vote. In a group where corporate governance procedures are less developed, the minority interests could potentially be oppressed to the extent that their interests are overridden.

Question 2 Yes

We agree that this presentation clearly distinguishes a minority from a liability. Question 3 Yes

We agree that this proposal to account for subsidiaries, associates and jointly controlled entities in the same fashion in both the consolidated and separate financial statements will result in less confusion than allowing dissimilar accounting in the respective financial statements.

**IAS 28**

Question 1 Yes

We agree that it is more appropriate to apply fair value measurements to what would have otherwise been an associate or joint venture when held by venture capital organisations, mutual funds, unit trusts and similar entities.

Question 2 Yes

We agree because the proposal effectively applies going concern principles when the losses are material.

**IAS 40**

Question 1 Yes

We agree with the conclusions, paragraphs A3 to AS.

Question 2 Yes

The conclusions reached in paragraph A6 are a considerable improvement to IAS 40.

Question 3 Yes

We agree that the economic conditions are not yet appropriate to eliminate the choice here.

We trust that the contents of this submission are self-explanatory, but should you require any further explanation, please contact the under-named on 020 7612 7041.

Yours faithfully

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