UK 34

Hans Nailor
Accounting Standards Board
100 Gray's Inn Road
London
WC1X 8AL

18 September 2002

Dear Hans

Events after the balance sheet date (FRED 27)

The Association of Chartered Certified Accountants (ACCA) is pleased to have this opportunity to comment on the above exposure draft issued by the ASB. The exposure draft was considered by ACCA's Financial Reporting Committee at a recent meeting and I am writing to give you their views.

I attach an extract from our response to the International Accounting Standards Board (IASB) on their proposed revision to IAS10.

ACCA's responses to ASB's questions

Q1. 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?

We agree in principle that a new UK standard should be issued which is harmonised with the new IAS10.

Q2.Do you *believe that ASB should consider any other transitional arrangements?*

No.

The Association of Chartered Certified Accountants
29 Lincoln's Inn Fields London WC2A 3EE United Kingdom
tel: +44 (0)20 7396 7000 fax: +44 (0)20 7396 7070 www.accaglobal.com

Q3.Are there any aspects of the draft standard that ASB should request IASB to review when finalising the revised IAS 10?

A copy of our response to IASB is attached. The principle of the recognition dividends payable could be stated more clearly.

If there are any matters arising from the above where you would like further clarification, please be in touch with me.

Yours sincerely

Richard Martin
Secretary to the Financial Reporting Committee

Appendix

IAS10 — Events after the balance sheet date

We support in principle the proposed change. The wording of paragraph 32, however, needs to be improved to make the principle clearer: that is, that dividends not yet paid should not be recognised as a liability unless there is an unavoidable obligation to pay them existing at the balance sheet date (in line with IAS37). The process for the approval and determination of dividends tends to be a matter which varies from one jurisdiction to another. The meanings of 'proposed' and 'declared' dividends will not be clear in all countries.

The Technical Director
Accounting Standards Board
100 Gray's Inn Road
London
WC1X SAL

18 September 2002

Dear Allan

Earnings per share (FRED 26)

The Association of Chartered Certified Accountants (ACCA) is pleased to have this opportunity to comment on the above exposure draft issued by the ASB. The exposure draft was considered by ACCA's Financial Reporting Committee at a recent meeting and I am writing to give you their views.

I attach an extract from our response to the International Accounting Standards Board (IASB) on their proposed revision to IAS33.

ACCA's responses to ASB's questions

Q1. 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 33 is approved by the IASB?

We agree in principle that a new UK standard should be issued which is harmonised with the new IAS33.

We agree that the further explanation in paragraph 18A concerning ESOPs is a helpful addition. We note that the references to IAS32 and the treatment of preference dividends may need to be adjusted when that standard is adopted fully into UK standards.

Q2. Do you believe that ASB should consider any other transitional arrangements?

No.

Q3. Are there any aspects of the draft standard that the ASB should request the IASB to review when finalising the revised IAS 33?

We have noted in our attached response to the IASB that EPS figures other than those calculated in accordance with the standard should be able to be shown on the face of the income statement.

If there are any matters arising from the above where you would like further clarification, please be in touch with me.

Yours sincerely

Richard Martin
Secretary to the Financial Reporting Committee

Appendix

IAS 33 Earnings per share

Question 1
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.

Question 2
Do you agree with the approach to the year-to-date calculation of diluted earnings per share as illustrated in Appendix B, examples 7 and 12?

Yes.

Other comments:
The restriction on the disclosure of just the standard EPS figure on the face of the income statement in IAS33 (paragraph 65) is not desirable. We support the ability of entities also to show with equal prominence EPS figures on different bases which they believe better portray the result for the period, or which are of equal or greater relevance to users (for instance the headline figures which will have been quoted in newspapers or analyses).

Hans Nailor
Accounting Standards Board
100 Gray's Inn Road
London
WC1X 8AL

18 September 2002

Dear Hans

Property, plant and equipment; Borrowing costs (FRED 29)

The Association of Chartered Certified Accountants (ACCA) is pleased to have this opportunity to comment on the above exposure draft issued by the ASB. The exposure draft was considered by ACCA's Financial Reporting Committee at a recent meeting and I am writing to give you their views.

I attach an extract from our response to the International Accounting Standards Board (IASB) on their proposed revision to IAS16.

ACCA* 's *responses to ASB's questions

Q1. 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?

No. The current revaluation project at IASB is, we understand, looking at whether value in use (or existing use value) should be a basis for revaluations of property, plant and equipment (see Q4 below). There is also a project looking at the measurement bases of assets in general. Given the importance of this item and our general support for such a valuation model, means that we consider FRED29 should not be proceeded with until the full international consideration of these issues is completed. To propose adopting the current IAS16 basis of revaluations in the near future might appear to be conceding the argument.

Q2. 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 disagree with this change, which we have highlighted to the IASB in our attached letter.

Q3. 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 agree that in the absence of specific guidance renewals accounting is not possible. We do not favour continuing to allow renewals accounting.

Q4. 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)?

We regard as inadequate and unrealistic the current basic requirement in IAS16 to use market values for revaluations of property, plant and equipment. There needs to be more consistency with the basis of valuations for impairments in IAS36 the higher of value in use and a market exit value. See our letter to the IASB.

Q5. Are there any other aspects of the differences between the proposed standards and current UK accounting requirements that you wish to comment on?

In our attached letter to IASB we have highlighted a number of improvements which we consider could be made to IAS16

- The wording of paragraph 23
- Annual impairment tests where no depreciation is charged
- The treatment of donated assets
- Requiring the involvement of external valuers in revaluations
- Treatment of downward revaluations

Q6. 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 lASB's projects on insurance and reporting financial performance?

Yes.

Q7. 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% transitional arrangement to continue to recognise the carrying amounts under that arrangement?

Yes. FRS15 in this regard moved UK practice into alignment with 1AS16. We see no reason to alter this concession now when the wording of the two standards has been harmonised, but the substance of the revaluation regime has not changed.

Q8. Do you believe that ASB should consider any other transitional arrangements?

No.

Q9. Are there any other aspects of the draft standard on property, plant and equipment that the ASS should request the IASS to review when finalising the revised IAS 16?

IAS16 does not address its application to infrastructure networks, and guidance would be helpful. IASB should consider any relevant issues which have arisen from the accounting problems of telecoms network companies.

Q1 0. 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?

We are content with the option on the treatment of borrowing costs to remain. If we had to choose we would support the mandatory prohibition of capitalisation

Q11. 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?

We would prefer to see IAS23 altered in this regard rather than for this to appear as a permanent difference between IAS and UK standards. The reasonableness or otherwise of the allowance in IAS23 depends on the phrase “to the extent that they are regarded as an adjustment to interest costs”. IASB should provide more guidance on when exchange differences might be so regarded. If that has not happened by the time a new standard is implemented in the UK, ASS could consider adding such explanation.

Q12. 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 FRS15 version.

Q13. Do you have any comments on IAS 23 that you wish the ASA to bring to the IASB’s attention?

Where optional treatments are allowed by accounting standards, then in principle full disclosures should be made to allow users of the accounts to assess fully the effects of those choices. The further disclosures in respect of borrowing costs highlighted in paragraph 15 of the Preface to FRED29, should be added to IAS23.

If there are any matters arising from the above where you would like further clarification, please be in touch with me.

Yours sincerely

Richard Martin
Secretary to the Financial Reporting Committee

Appendix

IAS16 — Property plant and equipment

Question 1

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)?

Yes. We recognise, however, real concerns that the quality of the fair values used will directly affect the reliability of the profits recognised. In many countries, the profits recognised in general purpose financial statements are also the basis for the distribution of dividends, and traditionally that has meant restricted to realised profits. It is difficult to see that, where two identical assets are exchanged, any realisation in substance has occurred. The problems, however, of trying to determine whether items are identical or merely similar mean that treating all exchanges at fair value is probably the better answer.

Question 2

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? (See the amendments in paragraphs 34-348 of IAS 38, Intangible Assets, proposed as a consequence of the proposal described in Question 1.)

Yes, in line with our response to Question 1 above.

Question 3

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)?

Not in every case, as is proposed in the ED. In most cases, there will be a loss of value over time and in these cases depreciation should continue even where the asset is temporarily idle or retired from active use. There are cases where the consumption of value is related entirely to use (for example, the extraction of minerals or the consumption of airspace in a landfill site) and in these instances depreciation should cease when an item is temporarily withdrawn from use.

Other Comments:
We do not agree with the proposed amendments to paragraph 23 of IAS16. In deciding whether subsequent expenditure may be capitalised, the assessment of expected performance should be when the asset was originally acquired or was last improved. As it is worded, it is likely that much repair and maintenance expenditure would qualify for capitalisation.

We do not think that paragraph 29 as it stands is very satisfactory in its simple requirement for fair value (usually to be market value) as the basis of revaluations. This model is not consistent with that for impairments in IAS36, which recognises that either net realisable value or value in use might be appropriate. The IAS36 model seems more realistic than the single measure of fair value. We note that there is a revaluation project under way and hope that the results of that can be incorporated into a revised IAS16

We do not agree with the change proposed in paragraph 46 to move to a system of re-estimating residual values each year. We would prefer to retain the existing estimation at the time of acquisition (or revaluation) and to leave any adjustment to the time of disposal when the actual residual value will be known. The proposal appears to be creating a mixture of historical cost and revaluation. This is a significant change to the standard, but one which was not highlighted by the questions asked or by the basis for conclusions.

An annual impairment test should be incorporated into IAS16 where there is no depreciation charged on assets other than land, or where it is insignificant because the expected economic life of the asset is very long. Such a test would be comparable to the intended future IAS38 in its treatment of intangible assets with indefinite lives.

IAS16 would benefit from guidance on how to treat donated assets. The revaluation regime should be made more rigorous and should, for example, include:

- the use of external valuers to be required and

  and

- the treatment of downward valuations as impairments when there has been a clear consumption of benefits.

Hans Nailor
Accounting Standards Board
100 Gray's Inn Road
London
WC1X SAL

18 September 2002

Dear Hans

Related Party Disclosures (FRED 25)

The Association of Chartered Certified Accountants (ACCA) is pleased to have this opportunity to comment on the above exposure draft issued by the ASB. The exposure draft was considered by ACCA's Financial Reporting Committee at a recent meeting and I am writing to give you their views.

I attach an extract from our response to the International Accounting Standards Board (IASB) on their proposed revision to IAS24

ACCA's responses to ASB' questions

Q1. 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? We agree in principle that a new UK standard should be issued which is harmonised with the new IAS24.

Q2. Do you believe that the ASB should consider any transitional arrangements?

ASB should review very carefully the amended IAS24. As can be seen from the comments which we have made to IASB, there are a significant number of areas where the proposals could be improved. The need for transparency in financial reporting is very important, and IAS24. needs to ensure that it meets the highest quality in this regard. If the revised IAS24 achieves this then we see no reason why its implementation in the UK should not proceed right away. If, however, the revised IAS24 does not incorporate all of these changes, then its early implementation as a UK standard would not be desirable. In these circumstances ASB could consider extra disclosures compared to the IAS to ensure the continued transparency of UK reporting.

Q3. 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 require disclosure, do you believe that a new UK standard should require this disclosure as set out in paragraphs 13A and 138 of the [draft] FRS?

Yes. Potentially this might remain as an extra disclosure requirement of a UK standard.

Q4. Do you believe that an accounting standard should require disclosure of the names of transacting related parties?

Yes. We have noted this in our response to IASB.

Q5. Should the definition of related parties specifically refer to shadow directors? Should it also refer to persons acting in concert?

There is no need for the definition to refer to shadow directors, as this is not a term which has much international currency. Appendix 1 on the legal requirement should make plain that shadow directors, as the term is defined in UK legislation, would be included as related parties on the basis of control.

A revised IAS would benefit from further explanation of control where there may be parties who have agreed to act together.

Q6. 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. We have noted this in our response to IASB.

Q7. Are there any other aspects of the draft standard that the ASS should request the IASB to review when finalising the revised IAS 24?

The standard makes it clear that an investor who would treat the reporting entity as a joint venture, would be a related party. Also a joint venture in which the reporting entity is a venturer, would be a related party. The position, however, of transactions between venturers, that is between the investors in a joint venture, does not seem to be covered.

If there are any matters arising from the above where you would like further clarification, please be in touch with me.

Yours sincerely

Richard Martin

Richard Martin
Secretary to the Financial Reporting Committee

Appendix

IAS24 Related party disclosures

Question 1

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)? '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'.

No, we strongly disagree with the proposal that management compensation should not be disclosed under IAS24. Management compensation is the most frequent form of related party transaction. Against the background of recent failures of financial reporting, changes to accounting standards should be reinforcing transparency and not reducing it. In developing a single set of high quality accounting standards for use across the world, IASB cannot assume that national regulations will cover the gaps which it has left and, in this case, ensure proper disclosure. Management compensation is a critical item of disclosure from a stewardship and corporate governance viewpoint. It is also vital for other users in understanding financial statements where the ownership and management are essentially the same, because management compensation and dividends may be interchangeable.

The problems of the definition of the terms management and compensation are not reasons for excluding these disclosures; indeed, definitions are only needed because of the exclusions. Paragraph 9(d) already sets out a definition of key management personnel and that would seem to be adequate for the purpose of compensation as well. As for measurement of compensation, IAS19 already addresses this subject and the main missing element will be covered by the future output of the project on share-based payments.

Question 2

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)? (Note that this proposal is the subject of alternative views of Board members, as set out in Appendix B.)

Yes, but the exclusion should apply to transactions with other group companies only. There may be transactions with other related parties, for example with key management personnel, which should be required even for wholly owned subsidiaries.

Other comments:
There are a number of other very important shortcomings in IAS24 which have not been addressed by these proposals.

- Names of related parties should be disclosed, not just the nature of the relationships.

- Names of controlling parties need to be disclosed, including parent companies and individuals or trusts.

- Materiality needs better definition in some cases, this should be material to the reporting entity and, in cases of transactions with individuals, it should be material to the other party.

- The definition of significant influence from the UK standard FRS8 would provide a helpful elaboration '...such that the other party might be inhibited from pursuing at all times its own separate interests'. This gets to the heart of why related party disclosures are needed.