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The Institute
of Certified
Public Accountants
in Ireland

Linking Irish accountants
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Mr Hans Nailor
Accounting Standards Board
Holborn Hall
100 Gray's Inn Road
London
WC1X 8AL

04 September 2002

Dear Mr Nailor,

Attached please find our responses to FRED *25* "Related Party Disclosures".

Dear Mr. Naylor

We are writing in response to the invitation to comment on FRED25 "Related party disclosures". We have long advocated the harmonisation of Irish/UK accounting standards with their international equivalent and therefore in general welcome the proposals in this exposure draft. As well as our responses to the specific questions asked we would also make the following comments:

- In our experience FRS8 has proved a problematic standard to fully understand in practise. While the new FRED is adequate, we feel an appendix should be included with examples of various scenarios. This will prove helpful for a fuller understanding of the various issues involved. The Institute is quite happy to provide such examples of frequently asked questions and solutions received by our technical department from our membership.

- We note that throughout the FRED it speaks of UK only and would request for future FREDs issued, that they refer to both the UK and Ireland.

- The extension of the definition of key managers as definite related parties may cause difficulty in practise. Under FRS8 key managers were presumed to be related but this could be rebutted. In our opinion it may be necessary to give more guidance who constitutes a key manager.

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- In practise, the inclusion of a "domestic partner" within the definition of a related partner may be difficult to define in practise and more guidance should be given in this area.

Yours sincerely,

Mark Butler CPA
Secretary
Financial Reporting Sub-Committee

FRED *25*

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

We are fully supportive of the proposal to issue a new standard in Ireland on related party disclosures in the interests of international convergence and harmonisation.

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

The committee sees no reason for an extended implementation period or for any special transitional arrangements.

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? Of the new IAS 24 does not require disclosures, so you believe that a new UK standard should require this disclosure as set our in paragraphs 13a and 13b of the [draft] FRS?***

In general we do not consider that there should be issues of divergence between LAS and Irish/UK standards. However, we do feel that the disclosure of the controlling party is valuable to readers of the Financial Statements for their understanding of the status of the entity.

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

We feel that the disclosure of the names of transacting related parties is not necessary and in general feel that the scope of the definition of related parties is increased under the standard. This extra disclosure burden is somewhat lessened by the fact that under the standard the name of the transacting party will not have to be disclosed. We also feel that the issue does not warrant a divergence between LAS and Irish/UK standards and in general feel that the exact wording should be used as is in the LAS. Otherwise different interpretations will be attached to the different wording used.

ASB (v) ***1. Should the definition of related parties specifically refer to shadow directors? 2. Should it also refer to persons acting in concert?***

No - we feel that there is no need for the definition to specifically refer to shadow directors as this is already caught by the definition of directors and key managers in paragraph 9 of the FRED.

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 transaction?***

No - the concept of materiality is implicit in all financial statement presentation and audit. The concept of materiality in the concept of the related party themselves which currently exists in FRS8 was one which we never fully concurred with. Materiality should only be relevant to the entity itself

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

Yes, as outlined in our letter an appendix to the FRED giving practical examples would be useful.

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)?***

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 Boards proposal, the Board would welcome suggestions on how to define 'management' and 'compensation'.

Yes, the current disclosures as required in the Companies Acts suffice and the disclosure of management compensation, expense allowances and similar items are not needed.

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 - we are in agreement with the current position. However, we note that the exposure draft speaks of a wholly owned subsidiary published "with" consolidated financial statements for the group. However, under this jurisdiction a subsidiary's financial statements will not be published "with" consolidated financial statements and therefore the exemption will effectively not be available for the subsidiary. This is something that will require clarification and perhaps amendment in the final exposure draft.

Mr Hans Nailor
Accounting Standards Board
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11 September 2002

Dear Mr Nailor,

We are writing in response to the invitation to comment on FRED 29 "Property, plant and equipment/Borrowing costs". We have long advocated the harmonisation of Irish/UK accounting standards with their international equivalent and therefore in general welcome the proposals in this exposure draft.

Yours sincerely,

Michael Kavanagh B.Comm CPA
Chairman
Financial Reporting Sub-Committee

<u>FRED 29</u>

The ASB would welcome comments in particular on the following: -

ASB (i) ***Do you agree with the proposal to issue a new UK and <u>Irish</u> standards on property, plant and equipment and borrowing costs when the L4SB issues the revised IAS 16, unless it becomes clear that further changes to IAS 16 are likely by 2005 as a result of the revaluations project?***

We are fully supportive of the proposal to issue a new standard in Ireland on this issue, in the interests of international convergence and harmonisation.

ASB** (ii)* ***As explained in paragraph 7 above, the international exposure draft on property, plant and equipment proposes that residual values used in the calculations of depreciable amount should be reviewed at each balance sheet date and revised to reflect current estimates. FRS 15 generally required prices at the date of acquisition or latest expense on historical cost basis is not reduced to inflation in residual values. Do you agree or disagree with the proposed international approach?

We have no objection to the international proposal that residual values should be reviewed at each balance sheet date and revised to reflect current estimates. We feel that the issue does not warrant a divergence between IAS and Irish/UK standards.

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 on FRI 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 believe that due to the exclusion of renewals accounting from IAS 16, it could prevent entities from using the method as its exclusion may imply that it is not allowed. We feel that the current guidance on renewal accounting in FRS 15 should remain and a potential solution to this would be to provide such guidance as an appendix to the IAS.

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 above?***

Our view is that using current value is conceptually more correct as the use of fair values anticipates a use for an asset which is speculative and may not be relevant to the entity, which will continue in it’s current operational existence for the foreseeable future.

ASB (v) ***Are there any other aspects of the differences between the proposed stan4ards and current UK accounting requirements that you wish to comment on?***

No - there is nothing further that has not already been commented on under other questions.

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** L4S **16 revised pending the outcome of the L4SB 's projects on insurance and performance reporting?

Yes — we agree with the proposal as it would not make sense for such companies to change their accounting for fixed assets under the new IAS and then potentially change again when the IASB's projects on insurance and performance reporting is completed.

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 carry amounts reflecting previous revaluations instead of restating the carrying amounts to historical cost (see paragraph 19 above). Do you believe that the transitional arrangements 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, we agree that entities should be allowed to continue to recognise the carrying amounts under the arrangement and we feel that it is a sensible and inevitable outcome of such a convergence.

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

The committee sees no reason for an extended implementation period or for any special transitional arrangements.

ASB (ix) ***Are there any other aspects of the draft standard on property, plant and equipment that the ASB should request the L4SB to review when finalising the revised MS 10?***

Yes, we feel that Foreign Exchange Gains and Losses should not be capitalised and the international standard should be amended to reflect this as foreign exchange gains/losses result from treasury not capital decisions.

ASB (x) ***Do you agree that the capitalization 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, we agree that capitalisation of borrowing costs should remain optional. The fact that the policy is clearly explained in the financial statements, means the user can easily identify which policy is being used.

ASB (xi) ***Do you agree that paragraph 5(e) of lAS 23, which allows certain exchange d4fferences to be capitalised, should be deleted in the draft standard on borrowing costs?***

We feel that Foreign Exchange Gains and Losses should not be capitalised and the international standard should be amended to reflect this. Such foreign exchange gains/losses result from a treasury and not a capital purchase decision.

ASB (xii) ***What are you views on the difference between MS 23 and FRS 15 referred to in paragraph 24 above concerning borrowing costs eligible for capitalisation?***

We believe that the rules under FRS 15 are more appropriate as interest can only be capitalised on assets under construction, where IAS 15 allows interest to be capitalised which may have nothing to do with the asset. ASB (xiii) Do you have any comments on L4S 23 that you wish the ASB to bring to the MSB 's attention?

No

37. ***The IASB has asked commentators to respond to the following questions on the proposed changes to IAS 2:***

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, we feel this is correct.

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, we 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. This is broadly in line with current practice under FRS 10.

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] FRI on property, plant and equipment)?***

Yes, we believe that depreciation should continue as the issue is one of cost allocation over the useful live of the asset.

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04 September 2002

Dear Mr Nailor,

Attached please find our responses to FRED 27 "Events after the balance sheet date".

Dear Mr Naylor

We are writing in response to the invitation to comment on FRED 27 "Events after the balance sheet date". We have long advocated the harmonisation of Irish/UK accounting standards with their international equivalent and therefore in general welcome the proposals in this exposure draft.

As well as our responses to the specific questions asked we would also make the following comments:

- We note that dividends declared after the balance sheet date will not be recognised as a liability under the new FRS. We feel that this proposed change is consistent with FRS12 and we are in support of same.
- We are uncomfortable with the omission of paragraph 12-15 of the IAS. We feel that the proposed FRS should at least refer to going concern and reference should be made to the relevant paragraph of FRS18.

Yours sincerely,

Mark Butler CPA
Secretary
Financial Reporting Sub-Committee

FRED 27

16. The ASB would welcome comments in particular on the following: -

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?***

We are fully supportive of the proposal to issue a new standard in Ireland on related party disclosures in the interests of international convergence and harmonisation.

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

The committee sees no reason for an extended implementation period or for any special transitional arrangements.

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

No