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The Project Manager
International Accounting Standards Board (IASB)
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

Via 'Open to Comment' page, www.iasb.org

Dear Sir / Madam

Exposure Draft of Proposed Improvements to International Financial Reporting Standards

Thank you for the opportunity to comment on the Exposure Draft of *Proposed Improvements to International Financial Reporting Standards*. CPA Australia's responses to the specific questions are provided in an appendix to this letter.

CPA Australia's comments have been prepared in consultation with members through its Asia Pacific Financial Reporting Advisory Group (APFRAG) which is a Board Committee representing a regional perspective from South-East Asia, China and Oceania, and its Financial Reporting and Governance Centre of Excellence.

If you have any queries on our comments, please contact Dr Mark Shying, CPA Australia's Financial Reporting and Governance Senior Policy Adviser via email at mark.shying@cpaaustralia.com.au or John Ngiam, CPA Australia's Financial Reporting and Governance Policy Adviser via email at john.ngiam@cpaaustralia.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to be 'GR', written over a light blue horizontal line.

Geoff Rankin FCPA
Chief Executive Officer

cc: M Shying
D Pratt
Chan Lai Koon
A Danasamy
D Leung

Question 1

Do you agree with the Board's proposed restructuring of IFRS 1? If not, why?

Yes, the proposed restructuring provides IFRS 1 with improved clarity. The principles enunciated in IFRS 1 are better emphasised with the exemptions relocated to the appendices.

Question 2

Do you agree with the proposal to add paragraph 8A to IFRS 5 to clarify that assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary? If not, why?

Yes, CPA Australia supports the proposed amendment with the appropriate note disclosures specifically outlining the most probable outcome and impact to the operations.

Question 3

The Board proposes to amend paragraph IG13 of the guidance on implementing IFRS 7 *Financial Instruments: Disclosures* to resolve the potential conflict with IAS 1. Do you agree with the proposal?

Yes, CPA Australia supports the proposed amendment.

Question 4

Do you agree with the proposal to require an entity that cannot make an unreserved statement of compliance with IFRSs to describe how its financial statements would have been different if prepared in full compliance with IFRSs? If not, why?

No, CPA Australia agrees with the alternative view that this proposal has the effect of inviting non-compliance with IFRSs.

Consequently, if the Board should progress with the proposal, entities which are unable to make an unreserved statement of compliance with IFRSs, shall be restricted from using the statement unless the equivalent disclosures and same information are provided. Any reference to or statement of compliance with IFRSs must be limited to those jurisdictions that comply with IFRSs but are modified by legislative directives. The reconciling disclosure requirements shall be based on the principle that all information required by IFRSs will be provided. This will ensure that a user will have the same information as if the financial statements were prepared in accordance with IFRSs.

Question 5

Do you agree with the proposal to clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 6

Do you agree with the proposal to amend the examples in paragraphs 68 and 71 of IAS 1 to remove the potential implication that financial assets and financial liabilities that are classified as held for trading in accordance with IAS 39 are required to be presented as current? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 7

Do you agree with the proposal to amend paragraphs 7, 9 and 11 of IAS 8 to clarify the status of implementation guidance? If not, why?

Yes, CPA Australia agrees with the proposal to amend the relevant paragraphs to clarify the status of an implementation guidance. However, CPA Australia is concerned with the terms 'application guidance' and 'implementation guidance' which may inadvertently suggest a similar status. In view of the significant distinction in status, CPA Australia is of the view that a better distinguishing reference be considered. To describe a guidance that accompanies but does not form part of the standard, a more appropriate word would be 'commentary' which does not suggest a preferred approach.

Question 8

Do you agree with the proposal to amend paragraph 13 of IAS 10 to clarify why a dividend declared after the reporting period does not result in the recognition of a liability at the end of the reporting period? If not, why?

No, CPA Australia is concerned with the proposed amendment which deletes the phrase 'criteria of a present obligation in IAS 37' which is an important technical reference. The proposed amendment should, at least, retain the term 'present obligation' which provides a contextual, technical reference as used in the *Framework*. A reference to 'a past event that leads to a present obligation' also adds a logical flow and clarity to the explanation.

Question 9

Should the definition of recoverable amount in IAS 16 be amended to remove the perceived inconsistency with 'recoverable amount' used in other IFRSs? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 10

Do you agree with the proposal to amend paragraph 68 of IAS 16 and paragraph 14 of IAS 7? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 11

Do you agree with the proposal to amend paragraphs 14 and 15 of IAS 17 to eliminate a perceived inconsistency between the specific classification guidance for leases of land and buildings and the general lease classification guidance in IAS 17? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 12

Do you agree with the proposal that contingent rent relating to an operating lease should be recognised as incurred? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 13

Do you agree with the proposed amendment to the guidance on IAS 18 to explain that the definition of the transaction costs to be applied to the accounting for financial asset origination fees are those defined in IAS 39? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 14(a)

Do you agree that IAS 19 should be amended to clarify that when a plan amendment reduces benefits for future service, the reduction relating to future service is a curtailment and any reduction relating to past service is negative past service cost? If not, why?

Yes, CPA Australia agrees with the proposed amendment. A definition explaining the term 'curtailment' is also appropriate for the 'Definitions' paragraph 7.

Question 14(b)

Do you agree that the Board should delete the following sentence from paragraph 111 of IAS 19: 'An event is material enough to qualify as a curtailment if the recognition of a curtailment gain or loss would have a material effect on the financial statements.'? If not, why?

Yes, CPA Australia agrees with the proposed sentence deletion

Question 15

Do you agree with the proposal to amend the definition of return on plan assets in paragraph 7 of IAS 19 to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 16

Do you agree with the proposal to replace in IAS 19 the term 'fall due' with the notion of employee entitlement in the definitions of short-term employee benefits and other long-term employee benefits? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 17

Should the reference in IAS 19 to recognising contingent liabilities be removed? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 18

Do you agree with the proposal to conform terminology used by IAS 20 to the equivalent defined or more widely used terms? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 19

Do you agree with the proposed amendments to IAS 20 to clarify that the benefit of a loan received from a government with a below-market rate of interest should be quantified by the imputation of interest in accordance with IAS 39? If not, why?

Yes, CPA Australia agrees with the proposal. However, it is also proposed to the Board to consider the inclusion of a specific paragraph reference within IAS 39 to assist users of the IFRSs. Some CPA Australia members are also of the view that a computation example would clarify the appropriate accounting treatment.

Question 20

Do you agree with the proposal to amend paragraph 6 of IAS 23 to refer to the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* relating to effective interest rate when describing the components of borrowing costs? If not, why?

Yes, CPA Australia agrees with the proposal. However, CPA Australia also proposes that the Board considers the inclusion of a specific paragraph reference within IAS 39 to assist users of the IFRSs. Alternatively, the 'effective interest rate method' may be described within IAS 23 for ease of reference.

Question 21

Do you agree with the proposal to require investments in subsidiaries that are accounted for in accordance with IAS 39 in the parent's separate financial statements to continue to be accounted for on that basis when classified as held for sale (or included in a disposal group that is classified as held for sale)? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 22

Do you agree with the proposal to clarify the disclosures required of an investor in an associate that accounts for its interest in the associate at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss? If not, why?

Yes, CPA Australia agrees that further clarification on the required disclosures is important. However, it appears unconventional to emphasise a disclosure requirement within the scope paragraph. CPA Australia would encourage that the clarification be emphasised with a reference from IAS 28, paragraph 37(f).

Question 23

Do you agree with the proposal to amend paragraph 33 of IAS 28 to clarify the circumstances in which an impairment charge against an investment in an associate should be reversed? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 24

Do you agree with the proposal to update the description of historical cost financial statements in paragraph 6 of IAS 29 and to conform terminology in IAS 29 to the equivalent defined or more widely used terms? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 25

Do you agree with the proposal to clarify the disclosures required of a venturer in a jointly controlled entity that accounts for its interest in the jointly controlled entity at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss? If not, why?

Yes, CPA Australia agrees that further clarification on the required disclosures is important. However, it appears unconventional to emphasise a disclosure requirement within the scope paragraph. CPA Australia would encourage that the clarification be emphasised with a reference from IAS 31, paragraphs 55 and 56.

Question 26

Do you agree with the proposal to amend paragraph 11 of IAS 34 to require the presentation of basic and diluted earnings per share only when the entity is within the scope of IAS 33? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 27

Do you agree with the proposal to amend paragraph 134(e) of IAS 36 to require the same disclosures to be given for fair value less costs to sell as are required for value in use when discounted cash flows are used to calculate fair value less costs to sell? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 28(a)

Do you agree that IAS 38 should emphasise that an entity should recognise expenditure on an intangible item as an expense when it has access to the goods or has received the services? If not, why?

Yes, CPA Australia supports the emphasis for further clarity. With reference to the proposed amendments, suggested phrases such as 'supply of goods' and 'access to those goods' may be replaced with 'ancillary supplies' or other equivalent terms for accuracy. The phrase 'access to those goods' or 'supply of goods' suggests that an asset has been acquired. It does not convey that the expenditure relates to an expense.

Question 28(b)

Do you agree that paragraph 70 of IAS 38 should be amended to allow an entity to recognise a prepayment only until it has access to the related goods or has received the related services? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 29

Do you agree with the proposal to remove the last sentence of paragraph 98 of IAS 38 regarding the amortisation method used for intangible assets? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 30

Do you agree with the proposal to amend IAS 39 by removing from the definition of a derivative the exclusion relating to contracts linked to non-financial variables that are specific to a party to the contract? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 31(a)

Do you agree with the proposal to amend IAS 39 to clarify the definitions of a financial instrument classified as held for trading? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 31(b)

Do you agree with the proposal to insert in IAS 39 paragraph 50A to clarify the changes in circumstances that are not reclassifications into or out of the fair value through profit or loss category? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 32

Do you agree with the proposal to amend paragraph 73 of IAS 39 to remove the references to segments and segment reporting? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 33

Do you agree with the proposal to amend paragraph AG8 of IAS 39 to clarify that the revised effective interest rate calculated in accordance with paragraph 92 should be used, when applicable, to remeasure the financial instrument in accordance with paragraph AG8? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 34

Do you agree with the proposal to amend paragraph AG30(g) of IAS 39 to clarify that prepayment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from reinvestment risk, as described in paragraph AG33(a), are closely related to the host debt contract? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 35

The exposure draft proposes to include property under construction or development for future use as an investment property within the scope of IAS 40. Do you agree with the proposal? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 36

Do you agree with the proposal to conform terminology used in paragraph 31 of IAS 40 to the terminology used in IAS 8? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 37

Should paragraph 50(d) of IAS 40 be amended to clarify the accounting for investment property held under a lease? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 38

Do you agree with the proposal to replace the terms 'point-of-sale costs' and 'estimated point-of-sale costs' in IAS 41 with 'costs to sell'? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 39

Do you agree with the proposed amendments to IAS 41 to permit either a pre-tax or a post-tax discount rate to be used according to the valuation methodology used to determine fair value? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 40

Do you agree with the proposal to remove the exclusion of 'additional biological transformation' from paragraph 21 of IAS 41? If not, why?

Yes, CPA Australia agrees with the proposal.

Question 41

Do you agree with the proposed amendments to the examples in paragraph 4 of IAS 41? If not, why?

Yes, CPA Australia agrees with the proposal.