Federation of European Accountants
Fédération des Experts comptables Européens

Sir David Tweedie
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E-mail: commentletters@iasb.org

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Ref.: ACC/HvD/LF/ID

Dear Sir David,

Re: FEE Comments on IASB Exposure Draft *Improvements to IFRSs*

(1) FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the IASB Exposure Draft *Improvements to IFRSs* (the "ED").

(2) As a founding organisation of EFRAG we have also contributed to the EFRAG consultation process by submitting on 11 November 2009 the FEE comments on EFRAG's Draft Comment Letter of 23 September 2009. EFRAG has issued its final comment letter on 25 November 2009. We have considered the EFRAG Final Comment Letter in our response and made reference to the EFRAG comments where relevant.

(3) In summary and like EFRAG, we agree in principle with most of the proposals of the ED. In addition, we generally support the more detailed issues raised by EFRAG in its draft comment letter and we also raise additional comments regarding some of the proposals as detailed in the appendix to this letter.

(4) Having said this, like EFRAG, we disagree with the proposals that the words "in accordance with IAS 39" in paragraph 38(b) of IAS 27 should be replaced with "at fair value through profit or loss". We share EFRAG's main reason for its disagreement with this proposal, as we also understand that the existing wording of paragraph 38(b) of IAS 27 is widely interpreted to mean that investments falling within the scope of that paragraph can be accounted for either at fair value through profit or loss or at fair value through OCI. We agree with EFRAG that it would not be appropriate to restrict the way in which an entity applies IAS 39 to such investments.

(5) In addition, there are three other instances where we are in disagreement like EFRAG with (parts of) the proposals (as explained under Issues 8, 9 and 14 in the Appendix to this letter).

Our responses to the questions in the Invitation to comment of the ED are included as an Appendix to this letter.

For further information on this letter, please contact Ms. Saskia Slomp, Technical Director.

Yours sincerely,

Hans van Damme
President

Appendix - Responses to the questions in the Invitation to comment of the IASB Exposure Draft *Improvements to IFRSs*

General questions (applicable to all proposed amendments)

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?

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?

Issue 1: IFRS1 First-time Adoption of IFRSs – Accounting policy changes in the year of adoption

(6) We agree with EFRAG and support the proposal to amend IFRS 1 in order to clarify the requirements of IAS 8 on disclosures about changes in accounting policies in relation to a first time adopter.

Issue 2: IFRS1 First-time Adoption of IFRSs - Revaluation basis as deemed cost

(7) We agree with EFRAG and support the proposal to amend IFRS 1 in order to amend the scope of the exemption in paragraph D8 of IFRS 1 which permits a first time adopter to use an event-triggered revaluation basis as "deemed cost" under IFRSs.

(8) Nevertheless, we believe that the Board should clarify how this new option would be applied. The difficulty arises because the amendment appears to require that the first time adopter establishes initial IFRSs carrying amounts on the date of transition to IFRSs (presumably with an initial adjustment to retained earnings to the extent that the previous GAAP amounts differed from those established under IFRSs) and subsequently adjust these carrying amounts to fair value on the date of the event. How should the entity account for the assets and liabilities in the intervening period, in particular, are the changes in assets and liabilities required by IFRSs, if any, recognised in profit or loss? Also, upon revaluation on the date of the event, would the adjustment be fully recognised in retained earnings as a further adjustment resulting from the transition to IFRSs? Alternatively, could it be recognised in a revaluation reserve?

(9) Additionally, we believe that the Board should revise the reasons given in paragraph BC4 to support including this new exemption of IFRS 1. BC4 indicates that "the Board concluded that its reasons for granting the exemption in paragraph D8 were equally valid for such events that occurred after the date of transition to IFRSs". However, this new exemption requires that entities establish nonetheless an IFRS cost on the date of transition. In that key respect, unlike the original exemption in paragraph D8, the new exemption does not relieve entities from the "time-consuming and expensive reconstruction of a cost that complies with IFRSs".

Issue 3: IFRS 3 (2008) *Business Combinations* - Transition requirements for consequential amendments of IFRS 3 to IFRS 7, IAS 32 and IAS 39 for contingent consideration from a business combination that occurred before the effective date of the revised standard.

(10) We agree with EFRAG and support in principle the proposal to amend IFRS 7, IAS 32 and IAS 39 in order to clarify that contingent considerations arising on business combinations whose acquisition dates preceded the application of the revised IFRS 3 should be accounted for in accordance with the "old" IFRS 3 rather than the revised IFRS 3.

(11) In addition, we support EFRAG's comments in paragraphs 4 and 5 of its final comment letter where it details some concerns regarding:

(i) The potential legal implications of the proposed amendments referring to the "old" IFRS 3 when this standard no longer exists in "IFRSs as endorsed in Europe". We support EFRAG's suggestion to resolve this problem by inserting into the revised IFRS 3 the paragraphs in "old" IFRS 3 that are being referred to; and

(ii) The fact that it might not always be clear what the IASB means by "prospective" transition and "retrospective" transition and how these transition methods should be applied. We support EFRAG in that the IASB should be encouraged to develop clear definitions of "prospective" and "retrospective" and how they ought to be applied, and allowing exceptions to these definitions only when justified.

(12) In addition to the concerns expressed by EFRAG, we recommend that the amendments proposed to the transitional provisions in IFRS7.44H, IAS 32.97E and IAS 39.103L should be clarified to indicate that these amendments shall be applied retrospectively from the date the entity first applied the revised IFRS 3.

Appendix - Responses to the questions in the Invitation to comment of the IASB Exposure Draft *Improvements to IFRSs*

Issue 4: IFRS 3 (2008) *Business Combinations* - Measuring non-controlling interests

(13) We agree with EFRAG and support, in principle, the proposal to amend IFRS 3 in order to clarify the scope of instruments covered in by the definition of "non-controlling interest" in the revised IFRS 3.

(14) In addition, we support EFRAG's detailed comments in paragraph 8 of its final comment letter regarding some concerns on the wording of the amendment proposed.

(15) In addition to the concerns raised by EFRAG, we note that the proposed amendment suggests that instruments that are not present ownership interest would be measured either "at fair value or other measurement bases as required by IFRSs". This wording may be read as providing a free choice between the two measures. If this is the case, the IASB should clarify whether the choice is available instruments by instruments. If it is not meant to be a free option, the wording should be revised.

(16) We also note that paragraph BC1 of the amendment indicates that the equity component of a convertible instrument shall be measured in accordance with IAS 32. However, IAS 32 requires that the equity component be measured at the date of issuance as the residual of the proceeds of issuance over the fair value of the liability component. The equity component is not subsequently remeasured. While the reference to the measurement in accordance with IAS 32 may be interpreted as requiring the determination of the fair value of the convertible instrument as a whole on the date of the business combination with measurement of the equity component as the difference between the fair value of the of the instrument as a whole and the fair value of the liability component, other interpretations are possible including the measurement of the equity component as established when the convertible was issued (i.e. at its historical amount). It would be useful if the Board provided further clarification on this matter.

Issue 5: IFRS 3 (2008) *Business Combinations* - Un-replaced and voluntarily replaced share-based payment awards

(17) We agree with EFRAG and support the proposal to amend IFRS 3 in order to address the diverging views on the accounting treatment of "un-replaced" and "voluntarily replaced" share-based payment awards in the context of entities that are acquired in a business combination.

(18) We suggest that, for the sake of clarity, the Board should consider specifying in paragraph 30 "in accordance with IFRS 2 Share-based Payment at the **date of the business combination**".

(19) We note that the amendments would make it unnecessary to distinguish whether the acquirer was obliged to replace the awards or not. Accordingly, we suggest a further amendment to paragraph B56 to remove the reference to the criteria that may be used to establish whether the acquirer was obliged to replace awards. The wording we suggest deleting is the following:

"If the acquirer is obliged to replace the acquiree awards, either all or a portion of the market-based measure of the acquirer's replacement awards shall be included in measuring the consideration transferred in the business combination. The acquirer is obliged to replace the acquiree awards if the acquiree or its employees have the ability to enforce replacement. For example, for the purposes of applying this requirement, the acquirer is obliged to replace the acquiree's awards if replacement is required by:
(a) the terms of the acquisition agreement;
(b) the terms of the acquiree's awards; or
(c) applicable laws or regulations."

Issue 6: IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* – Application of IFRS 5 in loss of significant influence over an associate or a jointly controlled entity

(20) We agree with EFRAG and support the proposal to amend IFRS 5 in order to clarify its applicability to an associate or jointly controlled entity when it is highly probable that control will be obtained and/or significant influence or join control will be lost.

(21) In addition, we support EFRAG's suggestion on how the proposed redrafting could be improved, as detailed in paragraph 12 of its final comment letter.

(22) In addition to EFRAG's comments, we suggest that the amendment could be further clarified if the last sentence of BC2, indicating "*an entity shall not classify as held for sale its investment in an associate or a jointly controlled entity in accordance with IFRS 5 when it is highly probable that control will be obtained because there will be no sale*", was brought forward in the core of IFRS 5.

Issue 7: IFRS 7 *Financial Instruments: Disclosures* – Financial Instruments: Disclosures – Disclosures about the nature and extent of risks arising from financial instruments

(23) We agree with EFRAG and support the proposal to amend IFRS 7 in order to address a number of relatively minor issues arising during its first years of application. We agree that the current requirements in paragraph 37(c) are not providing the most relevant information, however, the IASB might consider to disaggregate the disclosure required in paragraph 36(b) to individually impaired and non-impaired loans.

(24) In addition, we support EFRAG's additional comments regarding the proposed amendment to paragraph 36(a) that if users are to understand what the disclosed maximum exposure to credit risk relates to and how much of the total carrying amount of financial instruments with credit risk exposure is representative of maximum exposure to credit risk, it might be helpful also to disclose the carrying amount of such instruments (as detailed in paragraph 15 of EFRAG's final comment letter).

Issue 8: IAS 1 *Presentation of Financial Statements* – Clarification of statement of changes in equity

(25) We do not support the amendment proposed to IAS 1 to clarify the requirements regarding the presentation of a statement of changes in equity, mainly because:

(i) In our view, the proposed wording of paragraph 106 allowing entities to present the reconciliation requirements for classes of accumulated other comprehensive income in the notes to the financial statements might result in the statement of changes in equity not being of much use; and

(ii) The current proposal might result in too much flexibility and this could have a negative impact on the comparability of the statements of changes in equity across reporting entities.

(26) For this reason, we would support an alternative approach specifying a minimum disclosure required on the face of the statement of changes in equity, similar to the alternative approach described in Agenda paper 4C "Presentation of the statement of changes in equity" that was presented at the IASB Meeting of February 2009.

Issue 9: IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* – Update for conceptual framework terminology changes

(27) Like EFRAG, we do not support the IASB proposal to amend IAS 8 in order to update its guidance so that it is in accordance with the new terminology for the qualitative characteristics, and to update the requirements relating to when an entity shall change an accounting policy so that these requirements correspond to the new terminology. We would prefer it if the IASB waited and amended all existing standards when the revised chapters of the Framework are issued rather than the proposed approach to amend IAS 8 before the other standards.

(28) Like indicated by EFRAG in paragraph 19 of its final comment letter, as the revised Framework has not been issued yet, it is not possible at this stage to assess whether the proposed amendment to IAS 8 reflects these new chapters.

(29) We also support EFRAG's additional comments in paragraph 20 of its final comment letter that it would have been preferable if this kind of essential amendments to IFRSs had been issued in draft form as part of, or alongside, the Framework ED, particularly as this would have helped constituents to understand some of the implications of the proposed Framework changes.

(30) As an additional point, we believe that it would be useful if the definition of "relevant" given in the revised chapters of the Framework, i.e. "information is relevant if it is capable of making a difference in the decisions made by users in their capacity as capital providers. Information about an economic phenomenon is capable of making a difference when it has predictive value, confirmatory value or both" was added to paragraph 10(a). We note that this would be consistent with the fact that the definition of "faithful representation" has been included as part of the proposed amendment to IAS 8.

Issue 10: IAS 27 *Consolidated and Separate Financial Statements* – impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor

(31) We agree with EFRAG and support the proposal to amend IAS 27 in order to clarify whether an investor entity should, in its separate financial statements, apply the provisions of IAS 36 Impairment or IAS 39 Financial Instruments: Recognition and Measurement to test its investments in subsidiaries and jointly controlled entities and associates for impairment, when the investor measures those investments at cost in accordance with IAS 27. Like EFRAG, we agree that this is an issue that needs to be clarified, and that the Annual Improvements project is an appropriate place in which to provide this clarification.

(32) We also support, in principle, the proposed insertion into IAS 27 of paragraph 38D. We agree with EFRAG that, in the separate financial statements of the investor, investments in subsidiaries, jointly controlled entities and associates should be tested for impairment by applying the impairment provisions in IAS 39, regardless of whether the investments are carried at cost or at fair value (as permitted by IAS 27). In addition, like EFRAG, we do not think it is necessary to align the impairment model used in the separate accounts with the model used in the consolidated accounts as the purpose of the two sets of accounts is different.

(33) However, we would like to mention the following concern. IAS 39.66 describes the amount of the impairment loss as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. However, IAS 39.66 only applies to unquoted equity instruments that are not carried at fair value because the fair value cannot be reliably measured. How should the amount of the impairment loss be measured in all other cases (e.g. when an investor chooses, as permitted in IAS 27, to carry its investment in a subsidiary at cost in its separate financial statements even though the shares of the subsidiary are quoted on an active market)? It would be useful if the Board clarified whether the investor may determine impairment loss on the basis of the present value of estimated future cash flows in such cases. Given the investor majority shareholding in its subsidiary, it may be reasonable to consider that the quoted prices of the shares is not an appropriate basis to assess impairment of such investments.

(34) Having said this, like EFRAG, we disagree with the proposals that the words "in accordance with IAS 39" in paragraph 38(b) of IAS 27 should be replaced with "at fair value through profit or loss". We share EFRAG's main reason for its disagreement with this proposal, as we also understand that the existing wording of paragraph 38(b) of IAS 27 is widely interpreted to mean that investments falling within the scope of that paragraph can be accounted for either at fair value through profit or loss or at fair value through OCI. We agree with EFRAG that it would not be appropriate to restrict the way in which an entity applies IAS 39 to such investments. We support EFRAG's comments on this issue as detailed in paragraphs 25 and 26 of its draft comment letter.

Issue 11: IAS 27 *Consolidated and Separate Financial Statements* – Transition requirements for consequential amendments of IAS 27 to IAS 21, IAS 28 and IAS 31

(35) We agree with EFRAG and support the proposal to amend IAS 27 in order to clarify that the consequential amendments to other IFRSs (IASs 21, 28 and 31) arising as a result of the amended IAS 27 issued in 2008 are to be applied prospectively. We agree with EFRAG that this seems logical since IAS 27 requires prospective application.

(36) However, we note that the Board proposes to specify that the amendments to paragraph 35 shall be applied retrospectively. Paragraph 35 of IAS 28 refers to paragraphs 38-43 of IAS 27. The transition provisions of IAS 27.38A-38C either require or permit prospective application. Accordingly, we believe that the requirement to apply paragraph 35 retrospectively needs to be further explained.

Issue 12: IAS 28 *Investments in Associates* – Partial use of fair value for measurement of associates

(37) We agree with EFRAG and support the proposal to amend IAS 28 in order to clarify that different measurement basis can be applied to portions of an investment in an associate when part of the investment is designated at initial recognition as at fair value through profit or loss in accordance with the exception in paragraph 1 of IAS 28.

(38) As an additional point, we note that IAS 31 includes a similar scope exemption. We believe that the Board should consider whether a similar amendment is required for that standard.

Issue 13: IAS 34 *Interim Financial Reporting* – Significant events and transactions

(39) We support EFRAG's comments in paragraphs 34 to 36 of its draft comment letter and we agree with the proposal to amend IAS 34 in order to place greater emphasis on the disclosure principles to determine what information should be disclosed in an interim financial report and to include additional examples relating to more recent disclosure requirements, such as fair value measurement disclosures.

(40) As a general comment, we feel the amendments to IAS 34 for financial instrument disclosures raise a more general question on whether interim financial statements are fulfilling their role adequately. We wonder whether there might be a case for a more general investigation of what information should be provided in interim reports and what information is only provided once a year in the annual accounts.

Issue 14: Proposed amendment to IAS 40 *Investment Property*

(41) We generally support the proposal to amend IAS 40 in order to clarify the specific requirements that apply to a property that is initially acquired as investment property but where the owner subsequently starts to develop the property with a view of selling it.

(42) We believe that the Board should clarify whether the amendment is meant to apply solely to investment properties carried at fair value or whether it extends to those carried at cost. Indeed, the introduction to the proposed amendment refers "to transfer of investment property carried at fair value to inventory". However, paragraph 57 that is being amended applies equally to investment properties carried at fair value and at cost. Paragraph 59 adds to the ambiguity since it contemplates transfers to inventories involving investment properties carried at cost.

(43) However, like EFRAG, we do not agree with the proposal to require the relevant disclosures in IFRS 5 when the investment property does not meet the criteria of IFRS 5 to be classified as held for sale as if the criteria were met. In our opinion, requiring such disclosures in the case of an investment property that is not classified as held for sale would not enhance the usefulness of the information provided and therefore we consider them unnecessary.

Issue 15: IFRIC 13 Customer Loyalty Programmes – Fair value of award credits

(44) We agree with EFRAG and support the proposal to amend Application Guidance 2 of IFRIC 13 in order to clarify that, when the fair value of award credits is estimated by reference to the value of the awards for which they could be redeemed, the value of those awards shall be adjusted to reflect expected forfeitures.

Specific questions

Question 3

The Board proposes changes to IAS 34 *Interim Financial Reporting* to emphasise its disclosure principles. It also adds to the guidance to illustrate better how to apply these principles. The Board published an exposure draft *Fair Value Measurement* in May 2009. In that exposure draft, the Board proposes that all of the fair value measurement disclosures required in IFRS 7 *Financial Instruments: Disclosures* for annual financial statements should also be required for interim financial statements.

Do you agree that this proposed amendment is likely to lead to more useful information being made available to investors and other users of interim financial reports? If not, why? What would you propose instead and why?

Question 4

The Board proposes changes to IAS 34 *Interim Financial Reporting*. Do you agree that amending IAS 34 to require particular disclosures to be made in interim financial statements is a more effective way of ensuring that users of interim financial statements are provided with useful information? If not, why? What approach would you propose instead and why?

(45) See our response under issue 13 in paragraphs 39-40 of this letter.

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Question 5

The Board proposes to amend IAS 40 *Investment Property* to remove the requirement to transfer investment property carried at fair value to inventory when it will be developed for sale, to add a requirement for investment property held for sale to be displayed as a separate category in the statement of financial position and to require disclosures consistent with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Do you agree that the proposed amendment should be included within *Improvements to IFRSs* or should a separate project be undertaken to address this issue? If you believe a separate project should be undertaken, please explain why.

(46) See our response under issue 14 in paragraphs 41-43 of this letter.