



Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

8 November 2011

Dear Kevin

Re: ED 213 *Improvements to IFRSs* and ED 215 *Mandatory Effective Date of IFRS 9*

I am enclosing a copy of the PwC responses to the following International Accounting Standards Board's (IASB) Exposure Drafts:

- ED 213 *Improvements to IFRSs*, and
- ED 215 *Mandatory Effective Date of IFRS 9 (proposed amendment to AASB 9 (December 2009) and AASB 9 (December 2010))*

The letters reflect the views of the PwC network of firms and as such include our own comments on the matters raised in the exposure drafts.

AASB specific matters for comment

We are not aware of any regulatory or other issues that could affect the implementation of either of the proposals for not-for-profit and public sector entities.

Subject to our concerns about specific matters as expressed in our submissions to the IASB, the proposals would result in financial statements that would be useful to users. Should the proposed amendments be approved by the IASB, we are not aware of anything that would indicate that the proposals are not in the best interests of the Australian economy.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (02) 8266 8350 if you would like to discuss our comments further.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Regina Fikkers', written in a cursive style.

Regina Fikkers
Partner, PricewaterhouseCoopers

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Power 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
DX 77 Sydney, Australia
T +61 2 8266 0000. F +61 2 8266 9999. www.pwc.com.au

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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

19 October 2011

Dear Sir/Madam

Exposure Draft – Improvements to International Financial Reporting Standards

We are responding to your invitation to comment on the Exposure Draft of Proposed Improvements to IFRSs (the 'Exposure Draft') on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the Exposure Draft. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Our responses to the specific questions posed in the invitation to comment are attached as Appendix I to this letter. We agree in principle with the proposed improvements. We set forth suggestions to clarify the proposed wording of several of the proposed improvements.

If you have any questions in relation to this letter please do not hesitate to contact John Hitchins, PwC Global Chief Accountant (020 7804 2497), or Mary Dolson (020 7804 2930).

Yours faithfully

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers

PricewaterhouseCoopers



Appendix I

Detailed responses to the specific questions in the Exposure Draft

A. Proposed amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards*

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?*

Repeated application of IFRS 1

We agree with the proposed amendment.

Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before the date of transition to IFRS

We agree in principle with the proposals to clarify the application of IAS 23 for first time adopters. We agree that the requirements of IAS 23 must be applied to all borrowing costs relating to qualifying assets from the date of transition to IFRS. However, we have concerns about the guidance provided on the treatment of borrowing costs capitalised under previous GAAP.

We understand that the intent of the Board was to offer, effectively, two approaches on the treatment of borrowing costs relating to qualifying assets, to first time adopters. Those approaches are:

- a) To apply IAS 23 as if it had always been applied (applying IFRS 1.10 a & d to recognise and measure all assets and liabilities in the opening statement of financial position in accordance with the requirements of the standards, that is not taking advantage of any exemptions or exceptions;
- b) To use the exemption in IFRS 1, D23 to apply IAS 23 to borrowing costs relating to qualifying assets from one of three dates: the date of transition to IFRS, 1 January 2009 or an earlier date as selected.

If an entity follows approach b) above and applies IAS 23 from the date of transition to IFRS, it makes no adjustment to any borrowing costs capitalised under its previous GAAP. If it applies IAS 23 from an earlier date, it would adjust the borrowing costs recognised in the periods from the earlier date selected to the date of transition to IFRS to be compliant with IAS 23 but it would not adjust any borrowing costs capitalised under previous GAAP.

We understand that the Board intended to prohibit an entity from writing off all previously capitalised borrowing costs and then applying IAS 23 prospectively from the date of transition to IFRS. The specific guidance, as written, however, may confuse some readers. The Board may consider whether clarification of the language of D23 is possible whilst maintaining the relief offered. We propose one amendment below to the basis for conclusions to assist in clarifying the requirements. The Board may consider whether further explicit discussion would be helpful.

BC 6. Therefore, the Board proposes to clarify that borrowing costs capitalised in accordance with previous GAAP ~~can~~ **should** be carried over in the opening statement of financial position. When the entity chooses to apply the exemption in paragraph D23, capitalised borrowing costs are not eliminated. The Board noted that eliminating such costs would affect retained earnings and would be inconsistent with the effects of prospective application. In addition, the Board proposes to clarify that



borrowing costs incurred after the date of transition that relate to qualifying assets under construction at the date of transition are to be accounted for in accordance with IAS 23. Some had understood that an entity should continue to capitalise borrowing costs using the entity's previous GAAP for borrowing costs relating to qualifying assets under construction at the date of transition

Question 2: *Do you agree with the proposed transitional provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?*

We agree with the proposed transitional provisions and effective date for both proposed amendments to IFRS 1.

B. Proposed amendments to IAS 1 *Presentation of Financial Statements*

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?*

Clarification of the requirements for comparative information

Additional comparative information

We support the proposal to clarify the comparative information required when an entity provides financial information beyond the minimum comparative information required by IAS 1 *Presentation of Financial Statements*. We agree with the proposal that an entity may present additional comparative information in one or more statements without that additional information comprising a complete set of financial statements.

New paragraph 38B requires that comparative information is presented in the related notes when an additional statement is presented, although the additional information does not comprise a complete set of financial statements. New paragraph 40C states that the related notes to the opening statement of financial position are not required when that statement is presented following a change in accounting policy, a restatement or a reclassification. The requirements in these paragraphs are inconsistent. The inconsistency is not explained in the Basis for Conclusions. We suggest that new paragraph 38B is amended to be consistent with new paragraph 40C so that the related notes are not required when an additional statement is presented. If the Board concludes that new paragraph 38B should not be amended, the reason for the inconsistency should be explained in the Basis for Conclusions.

Opening statement of financial position

We support the proposal to clarify the requirements where an entity changes accounting policies, or makes retrospective restatements or reclassifications. We agree with the proposal that an additional statement of financial position is required only at the beginning of the required comparative period.

We also support the proposal that the related notes should not be presented other than the information required by IAS 8 when there is a change in accounting policy and the information required by new paragraph 41 when there is a reclassification.

New paragraph 40A requires an opening statement of financial position whenever an entity changes accounting policies, makes retrospective restatements or reclassifications. We note that some policy changes, restatements or reclassifications do not affect the opening statement of financial position, for example the adoption of new a disclosure standard such as IFRS 7 or IFRS 8 or a reclassification



within the statement of comprehensive income. The opening statement of financial position does not provide relevant information in these circumstances. We suggest that new paragraph 40A is amended so that it applies only when the change of policy, restatement or reclassification affects the opening statement of financial position.

Paragraph 6 of IFRS 1 requires that the opening IFRS statement of financial position is presented. Paragraph 21 of IFRS 1 cross references IAS 1 and requires that at least three statements of financial position are presented, together with the related notes in the first IFRS financial statements. There are situations in which the first IFRS financial statements include a voluntary additional statement of financial position – i.e., the financial statements contain three statements of financial position in addition to the opening IFRS statement of financial position. It is not clear whether the notes to the opening statement of financial position are required in these circumstances. We suggest that there is a consequential amendment to IFRS 1 to clarify the circumstances in which the related notes to the opening statement of financial position are required.

IFRS 1 requires that the first IFRS financial statements explain the transition to IFRS and present a reconciliation of total comprehensive income and equity from the previous GAAP to the first IFRS financial statements. This disclosure meets the same information needs as the disclosure required by IAS 8 when an existing IFRS preparer changes an accounting policy. We suggest therefore that to be consistent with the amendments to IAS 1, IFRS 1 should be amended to be clear that the notes to the opening statement of financial position are not required.

Previous amendments to IAS 1

We also draw to the Board's attention another IAS 1 issue that arose from the 2010 annual improvements to that standard.

Paragraph 106 requires that the statement of changes in equity include, for each component of equity, a reconciliation of the carrying amounts at the beginning and end of the period that separately discloses changes resulting from profit or loss, other comprehensive income and transactions with owners in their capacity as owners. Paragraph 106A, which was added in 2010, explains that the analysis of components of other comprehensive income may be presented either in the statement of changes in equity or in the notes. However, it is clear from paragraph 106 that the statement of changes in equity should continue to include, for each component of equity, the separate totals for profit or loss and other comprehensive income.

The illustrative examples accompanying IAS 1 were not amended in 2010 and include an example of a statement of changes in equity showing a single line item for total comprehensive income. This example does not comply with the requirements of paragraph 106 because it does not include separate line items for profit or loss and other comprehensive income.

We acknowledge that the illustrative examples do not form part of IAS 1, but the conflict between the example we have described above and the requirements of paragraph 106 is unhelpful. We encourage the board to consider revising the example.

Changes to reflect the Conceptual Framework for Financial Reporting 2010

We agree with the proposed changes to reflect the changes in Conceptual Framework for Financial Reporting made in 2010.



Question 2: *Do you agree with the proposed transitional provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?*

We agree with the proposed transition provisions and effective date.

C. Proposed amendments to IAS 16 Property, Plant and Equipment

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?*

We agree with the proposal to clarify that servicing equipment should be classified as property, plant and equipment when it is used during more than one period and as inventory otherwise.

Question 2: *Do you agree with the proposed transitional provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?*

We agree with the proposed transition provisions and effective date.

D. Proposed amendments to IAS 32 Financial Instruments: Presentation

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?*

We agree with the proposal to clarify that income tax relating to distributions to holders of an equity instrument and income tax relating to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*.

We are concerned however that the related guidance in IAS 12 is potentially confusing and that diversity in practice might arise, contradicting the purpose of the amendment. Paragraph 58(a) requires that income tax is recognised in profit or loss except to the extent that it arises from transactions that are recognised in other comprehensive income or equity. A dividend is recognised in equity, which might suggest that the tax consequences of a dividend are also recognised in equity. Paragraph 52B states that the tax consequences of dividends are recognised in profit or loss because they are linked to past transactions. We support this principle, but we suggest that IAS 12 is amended to clarify the interaction between paragraphs 52B and 58(a).

The amendment clarifies that the tax consequences of dividends are recognised in profit or loss except to the extent that those consequences arise from the circumstances described in paragraphs 58(a) and 58(b) of IAS 12 (BC3). The amendment also clarifies that the tax consequences of distributions other than dividends are recognised in accordance with paragraph 57 (BC3). We support these conclusions, but the principles on which they are based are not clear from IAS 12.

We suggest that IAS 12 is amended to clarify, consistent with BC 3, that the guidance in paragraphs 52A and 52B is applied only to dividends that distribute retained earnings and that the principle in paragraph 57 is applied to other distributions.

We are also aware of diversity in the application of paragraph 65A. It is often not clear whether the tax consequences of a dividend are in substance additional income tax that should be accounted for in accordance with paragraphs 52A and 52B or in substance payments on behalf of shareholders. For example, a dividend distribution tax may be paid by the reporting entity at the time of a distribution, but some recipients do not obtain a tax credit for the amount paid to the tax authority. This may



indicate a tax on the distribution of retained earnings. Other recipients receive a tax credit for the dividend distribution tax and some dividends are exempt from the tax because the recipients are tax exempt, which may suggest a tax paid on behalf of shareholders.

We are aware that some entities have used the inconsistency between IAS 12 and IAS 32 as a basis to conclude that specific tax consequences, such as those described above should be recognised in equity. The existing diversity in practice could be addressed by amending paragraph 65A to provide some indicators, such as those in ASC 740-10-15-4, of when a tax on distributions is paid on behalf of shareholders and when it is additional income tax on the entity's retained earnings.

Question 2: *Do you agree with the proposed transitional provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?*

We agree with the proposed transition provisions and effective date.

E. Proposed amendment to IAS 34 *Interim Financial Reporting*

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?*

We agree with the proposal to clarify the requirements in IAS 34 *Interim Financial Reporting* relating to segment information for total assets for each reportable segment in order to achieve consistency with the requirements in IFRS 8 *Operating Segments*.

Question 2: *Do you agree with the proposed transitional provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?*

We agree with the proposed transition provisions and effective date.