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

via email: standard@aasb.gov.au

17 October 2012

Dear Kevin

Re: AASB ED 225, IFRS IC DI/2012/1 and DI/2012/2

I am enclosing a copy of PricewaterhouseCooopers' responses to the following International Accounting Standards Board's (IASB) and IFRS Interpretation Committee (IFRS IC) exposure drafts:

- AASB ED 225 *Annual Improvements to IFRSs 2010—2012 Cycle*
- IFRIC Interpretation DI/2012/1 *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*
- IFRIC Interpretation DI/2012/2 *Put Options Written on Non-controlling Interests*

The letters reflect the views of the PricewaterhouseCoopers (PwC) network of firms and as such include our own comments on the matters raised in the exposure draft. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

AASB specific matter for comment – ED 225

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.

We agree with the AASB's conclusions in relation to the proposed Tier 2 disclosures, being to exclude the new disclosures proposed under AASB 136 but not to provide any exemption for the new AASB 8 disclosures for the reasons set out in ED 225.

Interpretation DI/2012/1 – *Levies on entities that operate in a specific market*
Our submission does not support the draft interpretation DI/2012/1 for various reasons set out in the enclosed letter. Amongst others, we are concerned about the accounting for levies that are subject to volume thresholds.

An example for such levies are payments for carbon emissions that will be required under the Clean Energy Legislation (*Clean Energy Act 2011* and supporting legislation). We agree with the AASB staff's view that an emissions liability should be recognised as the emissions are made. If the draft interpretation was approved by the IASB in its present form, it would appear that a liability could only be recognised once the volume threshold is exceeded in a particular year.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (03) 8603 5371 if you would like to discuss our comments further.

Yours sincerely

Margot Le Bars
Partner, PricewaterhouseCoopers

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

5 September 2012

Dear Sir/Madam

Exposure Draft ED/2012/1 – Annual Improvements to IFRSs, 2010-2012 cycle ('the Exposure Draft')

We are responding to your invitation to comment on 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 1 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

PricewaterhouseCoopers

Appendix 1

Detailed responses to the specific questions in the Exposure Draft

A. Proposed amendment to IFRS 2 Share-based Payment

Definition of 'vesting condition'

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 proposed amendment to clarify the definition of 'vesting conditions' in IFRS 2 *Share-based Payment,* by separating the definitions of a 'performance condition' and a 'service condition'.

The existing guidance combines the notions of a service condition and a performance condition into one definition of vesting conditions, but does not define each term separately. This has caused some diversity in application of the guidance. We are aware, for example, that there are divergent interpretations of whether a price index target is a performance condition and whether there should be a clear correlation between an employee's actions and the satisfaction of a performance target. We are also aware of diversity in the accounting for the consequences of employee termination, with some entities treating termination as a failure to satisfy a vesting condition and some as a cancellation.

We therefore agree with Board's objectives to clarify the definition and include separate definitions of service and performance conditions.

We suggest that the definitions would be clearer if the statement in the definition of vesting conditions that "A performance condition might include a market condition" was instead included in the definition of a performance condition.

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.

B. Proposed amendment to IFRS 3 Business Combinations

Accounting for contingent consideration in a business combination.

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 support the proposal to clarify that contingent consideration in a business combination that meets the definition of a financial instrument is classified either as equity or as a financial liability in accordance with IAS 32.

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We suggest that the proposed requirements for subsequent measurement of contingent consideration classified as a financial liability are clarified as described below.

It is our understanding that the Board's original intention when IFRS 3 (2008) was approved was that contingent consideration classified as a financial liability would be subsequently measured at fair value through profit and loss.

We suggest that IFRS 3 is amended to specify that contingent consideration arrangements classified as financial liabilities are designated at fair value through profit and loss. This would remove the requirement to link IFRS 3 with IFRS 9. The proposed improvement could be effective at the same date as the other proposed improvements in the Exposure Draft.

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?*

Please see our response to question 1. We prefer that the reference to IFRS 9 is removed from IFRS 3 enabling the effective date of the proposed improvement to be aligned with the others in the Exposure Draft.

C. Proposed amendments to IFRS 8 Operating Segments

Aggregation of operating segments.

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 support the proposal that entities disclose the rationale for aggregating operating segments. However we suggest management should be required to explain why the operating segments are sufficiently similar for aggregation to be appropriate rather than listing examples of economic characteristics.

Reconciliation of the total of the reportable segments' assets to the entity's assets

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 support the proposed improvement.

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 for both the proposed improvements to IFRS 8.

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D. Proposed amendment to IFRS 13 Fair Value Measurement

Short-term receivables and payables.

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 support the proposed improvement.

We suggest that the original wording from IAS 39 AG 79 is reinstated. '*Short-term receivables and payables with no stated interest rate may be measured at the original invoice amount if the effect of discounting is immaterial.*' It is preferable to include the exception in the standard itself rather than to explain it in the Basis for Conclusions.

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?*

As the proposal is to amend the Basis for Conclusions, there are no transitional provisions and no effective date.

E. Proposed amendment to IAS 1 Presentation of Financial Statements

Current/non-current classification of liabilities

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 proposed amendment to IAS 1 that clarifies that a liability shall be classified as non-current when the entity has the ability and expects to refinance or roll over the obligation for at least twelve months with the same lender and on the same or similar terms. However, we suggest the guidance is revised for the reasons described below.

Classification as non-current in the circumstances described in paragraph 73 of IAS 1 is an exception to the principle in paragraph 69(c) of IAS 1. We believe that this exception should be applied only when there is a high likelihood that the refinancing or roll over will occur. We therefore suggest that the 'entity expects' be replaced with 'it is highly probable' which is defined in IFRS (IFRS 5 para BC81) as 'a significantly higher probability than more likely than not'. We believe that using a term that is defined in the IFRS literature will increase the consistency of application.

Where the borrower is able to roll over an existing liability under the original contractual terms, the conditions on which the liability is rolled over affect its measurement in accordance with IAS 39.AG8, but do not affect derecognition. Paragraphs 40 and AG62 of IAS 39 are applied only where the contractual terms of the original liability are amended subsequent to its initial recognition. We suggest that the Basis for Conclusions is amended so it does not suggest that roll-overs that were part of the original contractual terms need to be assessed under the derecognition guidance in IAS 39.

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.

F. Proposed amendment to IAS 7 Statement of Cash Flows

Interest paid that is capitalised.

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 that the proposed amendment to IAS 7 to clarify that cash payments for capitalised interest should follow the classification of the asset to which the payments were capitalised is consistent with the guidance in paragraph 16 of IAS 7.

We understand that the Interpretations Committee has begun a project to review the principles of IAS 7 and will consider whether classification in the statement of cash flows should follow classification of the underlying asset or liability. We suggest that the Board consider whether the proposed amendment will be consistent with any changes to IAS 7 that might be proposed subsequently by the Interpretations Committee and should avoid making multiple changes to the standard within a short period.

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.

G. Proposed amendment to IAS 12 Income Taxes

Recognition of deferred tax assets for unrealised losses

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 understand the Board's objectives for the proposed amendments to IAS 12 and we support several of the changes. However, we are concerned that the proposal to clarify the guidance for tax planning strategies will result in outcomes that do not reflect the economics of transactions and produce information that is not useful. We are also concerned that the outcome will be inconsistent with the principles in IAS 12.

Tax planning strategies

We agree that a deferred tax asset should be recognised only when it will result in lower tax payments in the future, not merely because a deductible temporary difference reverses over time. However, we are concerned that the example added in Paragraph 30A suggests an approach that will result in information that does not reflect the economic substance in some situations and is inconsistent with other guidance in IAS 12.

The proposed example illustrates the accounting when the carrying value of a debt instrument measured at fair value is below its tax base. The recoverability of the resulting deductible temporary difference is assessed only by reference to existing or future capital gains, even when management expects to hold the instrument to collect the contractual cash flows. This outcome is not consistent with the principle in IAS 12 that the accounting for deferred tax reflects the manner in which management expects to recover or settle assets or liabilities. The accounting is also based on an assumption that the entity will sell the asset and generate an irrecoverable capital loss when this is not management's expectation.

The example also illustrates an outcome where the entity recognises a higher tax expense, which is counter-intuitive since an actual tax loss will not materialise if the instrument is held to maturity and the capital loss is not crystallised. The deductible temporary difference will make future tax payments lower because the income from the increase in fair value is not taxed. We suggest the Board consider whether this counter-intuitive outcome reflects the economic substance of the situation and provides decision-useful information to financial statement users.

We suggest that the amendment is revised to clarify that the increase in the book value of debt instruments measured at fair value but held for collection of their contractual cash flows is a source of future taxable income. This income arises from the expected manner of recovery of the asset and should be included in the overall expected results of the entity to assess the recoverability of the deferred tax asset. An entity would therefore recognise a deferred tax asset to the extent there is sufficient future income, including increases in the book value of debt instruments. The increase in the book value of debt instruments would not be considered in isolation and an entity that expected to incur losses despite the increase in the book value would not record a deferred tax asset.

We also suggest that the amendment is also revised to clarify that a tax planning opportunity also includes an action that changes the character of future income. IAS 12 currently states that a tax planning opportunity is an action an entity would take in order to create or increase taxable profits. Management might also be able to recover a deferred tax asset by taking an action that changes the character of future income, for example, by changing income from capital to trading.

Other amendments

We agree with the proposed amendment to clarify the taxable profit against which a deferred tax asset is assessed is taxable profit before the reversal of deductible temporary differences.

We also agree with the proposed amendment that an the entity should assess a deferred tax asset arising from a deductible temporary difference in combination with other deferred tax assets of the same type and should not consider a specific deferred tax asset or deductible temporary difference in isolation. We agree with the proposed amendment to clarify that a deferred tax asset is recognised only to the extent that it is probable that future taxable profit of the appropriate type is available.

We note, however, that the amendment in paragraph 27A refers to only deductible temporary differences. The same principle is applied to the recognition of deferred tax assets arising from the carry forward of unused tax losses and unused tax credits. These deferred tax assets would be assessed together with deductible temporary differences that will be utilised against the same type of future taxable income. We suggest that paragraph 27A is amended to make this clear.

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.

H. Proposed amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

Revaluation method – proportionate restatement of accumulated depreciation

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 support the proposed amendments but suggest some simplifications below.

The most relevant figure in the revaluation model is the value of the asset at the reporting date. An entity may be required, or choose, to present 'gross', 'accumulated depreciation' and 'net' figures. However, the net figure represents the fair value of the asset and is the most relevant. We suggest that it would be helpful to clarify this in the proposed amendment.

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.

I. Proposed amendment to IAS 24 Related Party Disclosures

Key management personnel

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 proposed amendment to IAS 24 that clarifies that the definition of a related party includes management entities and that the disclosure requirements include key management personnel services provided by a management entity.

IAS 24 *Related Parties* requires that the identification of related parties be symmetrical. This is explained in paragraph BC19 of IAS 24. We therefore suggest that the proposed amendment clarifies that entities that receive or provide key management services to each other are related.

We agree that key management personnel compensation paid by a management entity to its own employees is not disclosed in the management entity's own financial statements unless those employees are also key management personnel of the management entity. This will avoid duplicating the disclosure of the charge for providing the services. We suggest, however, that the proposed amendment clarifies that the disclosure requirements of paragraph 18 are applied even if key management personnel services are provided by another group entity and there is no charge for that service.

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.

J. Proposed amendment to IAS 36 Impairment of Assets

Harmonisation of disclosures for value in use and fair value less costs of disposal

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 support the proposed amendment.

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.