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Australian Accounting Standards Board

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Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Hans

IASB Exposure Draft ED/2012/1 *Annual Improvements to IFRSs 2010-2012 Cycle*

The Australian Accounting Standards Board (AASB) is pleased to provide comments on the ED/2012/1 *Annual Improvements to IFRSs 2010-2012 Cycle*. In formulating its views, the AASB sought and considered the views of Australian constituents. The comment letters received are published on the AASB's website.

Overall, the AASB supports the proposed amendments. However, we have some concerns about the clarity of the drafting of the following proposed amendments:

- IFRS 2 *Share-based Payment*
- IFRS 13 *Fair Value Measurement*
- IAS 12 *Income Taxes*
- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*

Our concerns and suggestions for improvement are explained in the attachment. The attachment also includes the AASB's comments on the specific questions in the Exposure Draft.

If you have any queries regarding any matters in this submission, please contact Nikole Gyles (ngyles@aasb.gov.au).

Yours sincerely

K.M. Stevenson

Kevin M. Stevenson
Chairman and CEO

AASB's Specific Comments on the IASB Exposure Draft
ED/2012/1 *Annual Improvements to IFRSs 2010-2012 Cycle*

The AASB's views on the questions in the Exposure Draft are as follows:

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?

Overall, the AASB supports the proposed amendments. However, we have some concerns and suggestions for improvement for the drafting of some of the proposed amendments, as outlined below.

IFRS 2 *Share-based Payment*

The AASB supports the proposed amendment to clarify the definition of 'vesting conditions' by separately defining 'performance condition' and a 'service condition'. However, the AASB thinks the nature of the issue being addressed should be explained more clearly in the Basis for Conclusions, including the reasons the IASB decided to address the issue.

For example, in relation to the correlation between an employee's responsibility and the performance target we think it would be helpful to constituents to include an explanation in paragraph BC4 along the following lines (new text is underlined):

> In its review of the definition of a 'performance condition', the Board considered what, if any, level of correlation is required between an employee's responsibility and the performance target. Potential diversity in practice had emerged as some were of the view that if share-based payment awards are granted to employees conditional on the entity-wide profit, it is not clear that the profit target constitutes a performance condition on the basis that the employee has so little influence on the entity-wide profit that it is not clear that the target is able to sufficiently incentivise an individual employee's actions. Others held the view that because the entity is in business in order to make a profit, it is reasonable to assume that all employees contribute directly or indirectly to the entity-wide profit, i.e. that generally employees contribute towards entity-wide profit.[1] T~~t~~he Board observed that it is reasonable to assume that the performance target set by management for an employee's share-based payment appropriately incentivises the employee to provide an increased quality and/or quantity of service to benefit the entity. Consequently, the Board proposes that the definition of a 'performance condition' should make clear that a performance target may relate either to the performance of the entity as a whole or to some part of the entity, such as a division or an individual employee.

IFRS 13 *Fair Value Measurement*

The AASB supports the proposed amendment to clarify that, when deleting paragraph B5.4.12 of IFRS 9 *Financial Instruments* and paragraph AG79 of IAS 39 *Financial Instruments: Recognition and Measurement*, the IASB did not intend to remove the ability of an entity to measure short-term receivables and payables with no stated

[1] Adapted from September 2011 IASB Staff Paper 7D IFRS 2 *Share-based Payment* – vesting and non-vesting conditions.

interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial. However, the AASB questions the suitability of using the Basis for Conclusions as the mechanism for effecting the improvement rather than amending the Standard. As the Basis for Conclusions is not an integral part of IFRS 13, the AASB considers it to be more appropriate to make the clarification in the Standard itself, rather than in the Basis for Conclusions.

IAS 12 *Income Taxes*

The AASB agrees with the underlying basis for the proposed amendments to IAS 12. However, we do not think the amendments, as drafted, improve the clarity of the Standard. The AASB considers that a number of aspects of IAS 12, including those relating to the recognition of deferred tax assets for unrealised losses, would benefit from a limited review (i.e. not a standards-level project[2]), focusing on clarifying and improving the principles underpinning IAS 12, rather than piecemeal amendments addressing specific practice issues.

If the IASB elects to proceed with the amendments to IAS 12, the AASB recommends the paragraphs relating to recognition of deferred tax assets for unrealised losses be redrafted to help ensure the requirements are understandable. As currently drafted, the proposed wording does not clearly distinguish ‘income’ from ‘taxable profits’, and ‘tax losses’ from ‘deductible temporary differences’, thereby potentially causing confusion.

IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*

The AASB agrees with the proposed changes to IAS 16 and IAS 38 regarding the treatment of the gross amount of an asset and its related accumulated depreciation/amortisation when it is revalued. However, the AASB recommends omitting the references to ‘observable market data’ from the proposed third sentence of paragraph 35(a) of IAS 16 and of paragraph 80(a) of IAS 38, respectively (in the context of non-proportionate restatements of the gross amounts of assets). This is because the appropriateness of non-proportionate restatements of the gross amounts of assets is unrelated to whether observable market data exist, and because the wording of that third sentence could be interpreted to inappropriately restrict the application of non-proportionate restatements of the gross amounts of assets. These reasons are elaborated below.

In two of the circumstances in which non-proportionate restatement would be necessary to faithfully measure an asset at fair value, as identified in paragraph BC3 of the Basis for Conclusions on the proposed amendment to IAS 16 (namely, changes in estimated useful life and changes in depreciation method), fair value estimates might necessarily be made in the absence of observable market data, using internally-generated (entity-specific) data instead. This illustrates that the appropriateness of non-proportionate restatements of the gross amounts of assets is unrelated to whether observable market data exist.

[2] As noted in our comment letter to the IASB on *Agenda Consultation* (December 2011), the AASB considers that standards-level projects should not be a major focus of the IASB in the next three years, other than in the context of research.

The AASB is concerned that the manner in which observable market data are referred to in the proposed third sentence of paragraph 35(a) of IAS 16 and of paragraph 80(a) of IAS 38, respectively, could be read to imply that non-proportionate restatement of the gross amount of an asset could only occur when observable market data exist. This is because that sentence, in giving examples of accumulated depreciation/amortisation being the difference between the gross and net amounts of a revalued asset, mentions the alternatives of restatements by reference to observable market data and proportionate restatements. It would be reasonable to infer from the above-mentioned proposed third sentence of those Standards that the examples are 'either or' in nature, i.e., that proportionate restatements are necessary whenever revaluations are not based on observable market data. If this meaning were not intended, the ED should have proposed words like "… the gross carrying amount may be restated proportionately or non-proportionately to the change in the net carrying amount, for example, by reference to observable market data."

If, as the AASB recommends, the reference to 'observable market data' were omitted from the proposed third sentence of paragraph 35(a) of IAS 16 and of paragraph 80(a) of IAS 38, respectively, the AASB suggests amending that sentence to something like:

> "For example, the gross amount may be restated proportionately or non-proportionately to the change in the carrying amount."[3]

The AASB also suggests giving consideration to the implications of the prospective treatment of changes in estimated useful life and in depreciation method required by paragraphs 36 and 38 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for making a non-proportionate (effectively, retrospective) restatement as proposed in this ED.

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?

The AASB agrees with the proposed transitional provisions and effective dates for each of the issues addressed in the ED, with the exception of the proposed effective date for the amendments to IFRS 3 *Business Combinations.* We question why entities that elect to early adopt the proposed amendments to IFRS 3 are required to also adopt the requirements of IFRS 9. The clarification that contingent consideration should not be measured at amortised cost is equally applicable for an entity applying the requirements of IAS 39.

Consequently, the AASB considers that the requirements of IAS 39 should be amended to provide the same clarification as is proposed for IFRS 9; or that at least an explanation is provided as to why the amendment would only apply in relation to IFRS 9 and not IAS 39.

[3] The AASB recommends saying 'gross amount' and 'net amount' in IAS 16 and IAS 38, rather than 'gross carrying amount' and 'net carrying amount'. The AASB considers that 'carrying amount' should only be used in relation to the net amount (i.e., net of accumulated depreciation/amortisation) at which an asset is carried, because an asset can only have one carrying amount (its fair value, if the asset has been revalued). This view is consistent with the definition of 'carrying amount' (as a net amount) in paragraph 6 of IAS 16 and paragraph 8 of IAS 38.