

Mr David Boymal
Chairman
Australian Accounting Standards Board
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By email: standard@asb.com.au

30 November 2007

Dear David

**Exposure Draft 158: Proposed Amendments to AASB 139 Financial Instruments:
Recognition and Measurement – Exposures Qualifying for Hedge Accounting**

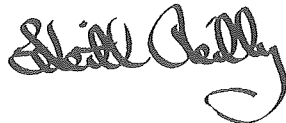
Grant Thornton Association Inc (“Grant Thornton Australia”) is pleased to comment on the Australian Accounting Standard Board’s (AASB’s) Proposed Amendments to AASB 139 Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge Accounting. Our response reflects our position as business advisers both to listed companies and privately held businesses.

This submission has benefited with input from our clients, Grant Thornton International which will be finalising a global submission to the IASB by its 11 January 2008 deadline, and discussions with key constituents.

Grant Thornton Australia supports the proposed amendments as we concur with the International Accounting Standards Board in its equivalent Exposure Draft that clarification is needed for when an entity may designate an exposure to a financial instrument as a hedged item. On that basis we further believe that there are no Australian regulatory issues that would affect the implementation of the proposals, the proposals will result in financial reports that are useful to users, and the proposals are in the best interests of the Australian economy.

If you require any further information or explanations, please contact me.

Yours sincerely
GRANT THORNTON ASSOCIATION INC



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Exposure Draft 159: Proposed Improvements to Australian Accounting Standards

Grant Thornton Association Inc ("Grant Thornton Australia") is pleased to comment on the Australian Accounting Standard Board's (AASB's) Exposure Draft 159: Proposed Improvements to Australian Accounting Standards. Our response reflects our position as business advisers both to listed companies and privately held businesses.

This submission has benefited with input from our clients, Grant Thornton International which will be finalising a global submission to the IASB by its 11 January 2008 deadline, and discussions with key constituents.

Grant Thornton Australia supports in principle the International Accounting Standards Board's (IASB) annual Improvements program on the basis that it is a streamlined process for dealing efficiently with a collection of miscellaneous, non-urgent but necessary minor amendments. However we are concerned that given this objective, there are some IASB Board Members who have issued dissenting views which suggests that those amendments are not seen by the Board in totality as being minor amendments. Our detailed comments are attached as an Appendix, and subject to those detailed comments, we do not believe that there are there are any Australian regulatory issues that would affect the implementation of the proposals, the proposals will result in financial reports that are useful to users, and the proposals are in the best interests of the Australian economy.

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APPENDIX

- **AASB 1/IFRS 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards***

Question 1

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

Yes we support the restructuring of IFRS 1.

- **AASB 5/IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations***

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?

We agree that a sale plan involving loss of control of a subsidiary should necessitate the designation disposal group being held for sale.

- **AASB 7/IFRS 7 *Financial Instruments: Disclosures***

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? If not, why?

Yes we agree with this proposed amendment to remove the potential conflict between IFRS 7 IG 13 and the revised IAS 1.

- **AASB 101/IAS 1 *Presentation of Financial Statements***

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 IFRS? If not, why?

No we disagree with this proposal. Countries that are adopting sector neutral standards based on IFRS have numerous entities that cannot make such a statement because they comply with IFRS-based standards that have been modified for public sector or not for profit issues. These entities would be forced to go to the expense of making disclosures that local regulators have not found to be necessary because local users are aware of the modifications.

This proposal should be restricted to listed entities or entities with public accountability, as described in the proposed IFRS for SMEs.

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 we agree with this proposal but question whether the wording is too loose so that it might allow more items to be considered non-current than is envisaged.

Question 6

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

Yes we agree with this proposal.

- **AASB 102/IAS 2 Inventories** – consequential amendment only
- **AASB 107/IAS 7 Statement of Cash Flows** – consequential amendment only
- **AASB 108/IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors**

Question 7

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

Yes we agree with this proposal. However, it might be helpful to users if the IASB were to issue a Foreword to the IFRSs describing the various pronouncements it issues together with their purpose and applicability, similar to that issued for auditing pronouncements. The terms “Application Guidance” and “Implementation Guidance” are very similar and may lead to confusion in the minds of users.

- **AASB 110/IAS 10 Events after the Balance Sheet Date**

Question 8

Do you agree with the proposal to amend paragraph 13 of LAS 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?

Yes we agree with this proposal.

- **AASB 116/IAS 16 Property, Plant and Equipment**

Question 9

Should the definition of recoverable amount in LAS 16 be amended to remove the perceived inconsistency with ‘recoverable amount’ used in other IFRSs. If not, why?

We agree with this proposal.

Question 10

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

Yes we agree with this proposal.

- **AASB 117/IAS 17 Leases**

Question 11

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

Yes we agree with this proposal.

Question 12

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

Yes we agree with this proposal.

- **AASB 118/IAS 18 Revenue**

Question 13

Do you agree with the proposed amendment to the guidance on LAS 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 LAS 39? If not, why?

Yes we agree with this proposal.

- **AASB 119/IAS 19 Employee Benefits**

Question 14(a)

Do you agree that LAS 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 we agree with this proposal.

Question 14(b)

Do you agree that the Board should delete the following sentence from paragraph 111 of LAS 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 we broadly agree with this proposal. However, we are concerned with the substitution of the word "significant" for the word "material" in paragraph 111(a). In our view, "material" is a term readily understood by preparers and auditors of financial statements and should be retained.

Question 15

Do you agree with the proposal to amend the definition of return on plan assets in paragraph 7 of LAS 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 we agree with this proposal.

Question 16

Do you agree with the proposal to replace in LAS 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?

No we do not agree with this proposal as the concept of ‘wholly’ creates uncertainty as to whether to split a benefit that might be spread over more than 12 months.

Question 17

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

Yes we agree with this proposal however, we suggest the removal of the newly inserted word “some” in the second line of paragraph 32B to make the sentence flow better.

- **AASB 120/IAS 20 Accounting for Government Grants and Disclosure of Government Assistance**

Question 18

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

Yes we agree with this proposal.

Question 19

Do you agree with the proposed amendments to LAS 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 LAS 39? If not, why?

Yes we agree with this proposal.

- **AASB 123/IAS 23 Borrowing Costs**

Question 20

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

Yes we agree with this proposal.

- **AASB 127/IAS 27 Consolidated and Separate Financial Statements**

Question 21

Do you agree with the proposal to require investments in subsidiaries that are accounted for in accordance with LAS 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 we agree with this 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 LAS 39, with changes in fair value recognised in profit or loss? If not, why?

No, we question whether such disclosures are necessary given that they are already accounted for in the fair value measurement.

- **AASB 128/IAS 28 *Investments in Associates***

Question 23

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

No we do not support as there is some doubt in our mind as to whether this is a clarification or change of treatment and it is subject to a dissenting view.

- **AASB 129/IAS 29 *Financial Reporting in Hyperinflationary Economies***

Question 24

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

Yes we agree with this proposal.

- **AASB 131/IAS 31 *Interests in Joint Ventures***

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 LAS 39, with changes in fair value recognised in profit or loss? If not, why?

Yes we support this proposal, but given that the entire standard has just been exposed as ED 9, we question the need to make a minor amendment to a standard that is about to be reissued.

- **AASB 134/IAS 34 *Interim Financial Reporting***

Question 26

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

We agree with this proposal.

- **AASB 136/IAS 36 *Impairment of Assets***

Question 27

Do you agree with the proposal to amend paragraph 134(e) of LAS 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 we agree with this proposal.

- **AASB 138/IAS 38 *Intangible Assets***

Question 28(a)

Do you agree that LAS 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 we agree with this proposal.

Question 28(b)

Do you agree that paragraph 70 of LAS 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 we agree with this proposal.

Question 29

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

Yes we agree with this proposal.

• **AASB 139/IAS 39 *Financial Instruments: Recognition and Measurement***

Question 30

Do you agree with the proposal to amend LAS 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 we agree with this proposal.

Question 31(a)

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

Yes we agree with this proposal.

Question 31(b)

Do you agree with the proposal to insert in LAS 39 paragraph 50.A 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 we agree with this proposal.

Question 32

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

Yes we agree with this proposal.

Question 33

Do you agree with the proposal to amend paragraph AG8 of LAS 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 we agree with this proposal.

Question 34

Do you agree with the proposal to amend paragraph AG30(g) of LAS 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 we agree with this proposal.

- **AASB 140/IAS 40 *Investment Property***

Question 35

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

Yes we agree with this proposal.

Question 36

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

Yes we agree with this proposal.

Question 37

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

Yes we agree with this proposal.

- **AASB 141/IAS 41 *Agriculture***

Question 38

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

Yes we agree with this proposal.

Question 39

Do you agree with the proposed amendment to LAS 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 we agree with this proposal.

Question 40

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

Yes we agree with this proposal.

Question 41

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

Yes we agree with this proposal.