



**The Institute of
Chartered Accountants
in Australia**

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Professor David Boymal
The Chairman
Australian Accounting Standards Board
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Dear David

ED 159 Proposed Improvements to Australian Accounting Standards

The Institute of Chartered Accountants (Institute) welcomes the opportunity to make a submission on the AASB's Exposure Draft as noted above.

The Institute supports in principle the International Accounting Standards Board (IASB) annual improvements process in dealing with **necessary** minor amendments. However we have some reservations about the contents of this ED, which follow. Our detailed comments are attached.

We consider that this ED contains many **unnecessary** minor amendments and therefore question whether the IASB really understands the implications for users of constantly issuing minor amendments to its standards, particularly in countries where the standards apply to all reporting entities, not just listed entities. The frequency of amendments is making it very hard for users to work out the exact text of the standard they should be using at any given point in time. Our members in business and smaller practices find it very hard to keep abreast of these changes. The amendments we consider to be unnecessary include:

- The issuing of amendments to IAS 1 when the standard was only re-issued in October 2007.
- Proposing minor amendments to a standard that is manifestly out of date (IAS 20/AASB120).
- Proposing amendments to a standard that is currently on Exposure (IAS 31/AASB 131).

We also note that in several instances the IASB has included dissenting views of Board members. Given that "the objective of the annual improvements project is to provide a streamlined process for dealing efficiently with a collection of miscellaneous, non-urgent but necessary minor amendments to IFRSs", we find it surprising that the Board should be including proposals on which there are dissenting views within the Board itself. The existence of dissenting views implies that these amendments are not as minor as one might expect. Therefore we would not expect such proposals to be included in an Annual Improvements Exposure Draft.

If you require any further information please contact Kerry Hicks, Head of Reporting, on (02)9290 5703.

Yours sincerely

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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?

We understand why the IASB wishes to tidy up the exemptions in IFRS 1 and this new layout achieves that purpose. Some education may be needed, however, to ensure that users realize that the appendices contain further requirements of the standard and not just explanatory material.

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?

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?

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 hitherto local regulators have not found to be necessary because local users are aware of the modifications.

If this proposal proceeds at all, its use 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?

We agree with this proposal, however consider it should also cover potential settlement of a liability by other means – for example by the provision of services.

Question 6

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

We agree with this proposal; however we do not believe that this proposal alone will resolve the issue that has been identified by the IASB. In our view, the term "held for trading" implies that those securities are a trading portfolio that would fall within the scope of paragraph 66(b) of IAS 1. If this was not the IASB's intention, attention should be given to finding new terminology to use in IAS 39.

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 IAS 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 IAS 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 IAS 16 be amended to remove the perceived inconsistency with 'recoverable amount' used in other IFRSs. If not, why?

Yes we agree that the definition of recoverable amount should be consistent throughout the standards.

Question 10

Do you agree with the proposal to amend paragraph 68 of IAS 16 and paragraph 14 of IAS 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 IAS 17 to eliminate a perceived inconsistency between the specific classification guidance for leases of land and buildings and the general lease classification guidance in IAS 17? If not, why?

Yes we agree with this proposal but suggest that the first sentence of paragraph 14 be retained as practitioners sometimes do not appreciate that leasehold land is to be treated in the same way as any other lease.

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 IAS 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 IAS 39? If not, why?

Yes we agree that the definition of transaction costs used in IAS 18 should be aligned to that used in AASB 139.

AASB 119/IAS 19 Employee Benefits**Question 14(a)**

Do you agree that IAS 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?

While we agree with this proposal, we question the rationale of introducing this proposal now when the standard is currently subject to a more comprehensive review.

Question 14 (b)

Do you agree that the Board should delete the following sentence from paragraph 111 of IAS 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 subject to our comment in Question 14(a) above. We do not however agree 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 IAS 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 to avoid the double counting of costs.

Question 16

Do you agree with the proposal to replace in IAS 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?

Yes we agree with this proposal.

Question 17

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

Yes we agree with this proposal however, 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 IAS 20 to the equivalent defined or more widely used terms? If not, why?

While we agree that the use of widely used terms throughout the standards is an improvement, in our view IAS 20/AASB 120 needs total revision and such cosmetic amendments are not a good use of the IASB's resources. We suggest that the Board ignores IAS 20 until such time as it is ready to do a thorough revision. The original text of the standard was easier to follow. Paragraph 13 is a prime example of the revised version being harder to follow than the original text.

Question 19

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

Yes we agree with this proposal, subject to our general comments on changes to IAS 20 as noted in Question 18 above.

AASB 123/IAS 23 Borrowing Costs**Question 20**

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

Yes we agree that AASB 123 should be aligned with AASB 139 as proposed.

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 IAS 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.

AASB 128/IAS 28 *Investments in Associates***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 IAS 39, with changes in fair value recognised in profit or loss? If not, why?

Yes we support this proposal.

Question 23

Do you agree with the proposal to amend paragraph 33 of IAS 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 this proposal as there is some question as to whether this proposal is merely a clarification or a change of treatment. Given this proposal is the subject of a dissenting view we consider that it should be subject to a more thorough review by the board as part of a review of equity accounting in general and its relationship with IAS 39 in the area of impairment.

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 IAS 29 and to conform terminology in IAS 29 to the equivalent defined or more widely used terms? If not, why?

Yes we support these proposed amendments.

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

While we support this proposal, given the entire standard has just been exposed as ED 157 (IASB ED 9), we see no reason to make a minor amendment to a standard that is about to be reissued.

AASB 132/IAS 32 *Financial Instruments: Presentation*

Consequential amendments resulting from proposed amendments to other standards dealt with elsewhere in the ED – no comments.

AASB 134/IAS 34 *Interim Financial Reporting***Question 26**

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

Yes 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 IAS 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 for the reasons given in the Basis for Conclusions. The inputs and assumptions often used in a fair value calculation are based on discounted cash flows. These techniques are similar to those used in a value in use calculation and, being an area that is subjective, should be subject to the same level of disclosure.

AASB 138/IAS 38 Intangible Assets**Question 28(a)**

Do you agree that IAS 38 should emphasise that an entity should recognize expenditure on an intangible item as an expense when it has access to the goods or has received the services? If not, why?

Question 28(b)

Do you agree that paragraph 70 of IAS 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?

While we agree that generally promotional expenditure should be expensed as incurred, we also agree with Mr Leisenring's comments in the Alternative View that where the entity has bought that which satisfy the criteria for recognition as assets, they should be recognised as such. For example if the entity has bought a supply of catalogues, they should be held as an asset for the duration of the promotion and any excess at the end of the promotion should be written off. Therefore, given the dissenting view, we do not agree that this proposed amendment is a minor amendment and it therefore warrants further consideration by the Board.

We anticipate that capitalisation in the case of catalogues would be rare in practice as many promotions only last for a couple of weeks. We can, however, envisage circumstances where an entity may commission a promotional item such as a short film that will be used over a year or two.

Question 29

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

Yes we agree with this proposal and concur with the reasoning in BC 5.

AASB 139/IAS 39 Financial Instruments: Recognition and Measurement**Question 30**

Do you agree with the proposal to amend IAS 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?

No we do not agree with the proposals, as we consider a changed definition of a derivative could apply to a wider range of contracts and therefore do not consider this to be a minor amendment. We recommend that further analysis is done on this issue before any amendment is finalised.

Question 31(a)

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

Question 31(b)

Do you agree with the proposal to insert in IAS 39 paragraph 50A 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 these proposals.

Question 32

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

Yes we agree with these proposals.

Question 33

Do you agree with the proposal to amend paragraph AG8 of IAS 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 IAS 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 IAS 40. Do you agree with the proposal? If not, why?

Yes we support this proposal and envisage that it will be welcomed by the property development industry. We note that entities that do not wish to apply IAS 40 can continue to use IAS 16.

Question 36

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

Yes we agree with this proposal.

Question 37

Should paragraph 50(d) of IAS 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 IAS 41 with 'costs to sell'? If not, why?

Yes we agree that terminology should be consistent across the standards.

Question 39

Do you agree with the proposed amendment to IAS 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 and also consider that disclosure should be made indicating whether the rate used is a pre-tax or post-tax discount rate.

Question 40

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

Yes we agree with this proposal.

AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts.

Consequential amendments as a result of Question 21 – no additional comments.