Australian Government

Australian Accounting
Standards Board

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Ms Dora Cheung
Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Dear Ms Cheung,

Improvements to IFRSs

The Australian Accounting Standards Board (AASB) is pleased to provide comments on the abovenamed Exposure Draft. In forming its views, the AASB considered comments it received from Australian constituents in response to its Exposure Draft on the same topic. The AASB is generally supportive of the proposed amendments with the exceptions and suggestions for improvement identified below.

IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*

While agreeing with the proposed amendment the AASB considers that the last sentence of paragraph 5A should be deleted because it is inappropriate to include a statement about disclosures that may be necessary in a paragraph dealing with the scope of the standard.

IAS 7 *Statement of Cash Flows*

The AASB does not agree with this proposed amendment because it mandates a rule which is inconsistent with the way in which entities, particularly those engaged in extractive activities, present cash flow information on investing activities to facilitate user understanding of their activities. Such entities will often make outlays in exploring for minerals, oil and gas. Those entities applying the full cost method of accounting and capitalising those outlays would show them as investing cash flows. Those entities using the successful efforts approach and only capitalising when there is early success in making a discovery would generally have to show those cash flows as operating. In the absence of this information being reported as an investing cash flow, users will not be readily able to determine the cash outlay on exploration and evaluation activities. Compliance with the rule will decrease the transparency of the reported information because these expenditures, if classified as operating cash flows, will be included in a total amount, say, payments to suppliers, and will not be readily available to users. In addition, prescribing the classification to be adopted is inconsistent with the "through the eyes of management" approach reflected in IFRS 8 *Operating Segments* and the recent IASB/FASB Discussion Paper *Presentation of Financial Statements*.

IAS 18 *Revenue*

The Board suggests that further explanation be included in the example to:

(a) explain what is meant by inventory risk in item (b); and

(b) deal more fully with those circumstances where a party may be acting as an agent and as a principal in respect of related transactions in item (c). For example, a party may be acting as agent in the sale of an asset and may be acting as a principal when selling a related service contract as an additional product or service.

The AASB also suggests that the guidance should emphasise that the criteria are considered in the light of the facts and circumstances of each case and that the further criteria listed in EITF 99-19 *Reporting Revenue Gross as a Principal versus Net as an Agent* be included in the example as these deal with situations where there is discretion in the selection of a supplier and in determining product or service specifications. In addition, EITF 99-19 identifies factors that are indicative of an agency relationship. The AASB considers that presenting the criteria and factors in a similar manner to EITF 99-19 and providing actual example(s) to illustrate the application of the indicators would assist users to interpret the guidance being included in IAS 18.

IAS 38 *Intangible Assets*

The AASB understands the difficulties of making amendments to Standards in a timely manner and seeking to avoid preparers needing to make frequent changes. It is reasonable that amendments as a consequence of issuing IASB 3 (revised) *Business Combinations* apply from the operative date of that Standard. However, the other amendments proposed to IAS 38 are not so significant that they cannot apply from 1 July 2009. Having the same effective date for the amendments to IAS 38 will facilitate their application.

IAS 39 *Financial Instrument's Recognition and Measurement*

The AASB supports the proposal not to allow the separation of an embedded foreign currency derivative that is integral to an arrangement. However, we are not convinced that the proposal as drafted will achieve the intended outcome.

The AASB suggests that the indicators identified in paragraph BC19 are preferable to relying on IAS 21 *The Effects of Changes in Foreign Exchange Rates* and their inclusion in the Application Guidance to IAS 39 would help clarify the requirements.

Editorial Comments

IAS 38 paragraph 41

It is unclear from the drafting whether paragraph 41(b) is intended as an example of a measurement technique (which is an interpretation of the existing paragraph) or whether the discounting is a step in applying the technique described in paragraph 41(a).

IAS 38 paragraph 36

We suggest that the word ‘together’ in paragraph 36 be replaced with the words ‘when directly associated’ so that it reads ‘An intangible asset acquired in a business combination might be separable, but only when directly associated with a related contract, identifiable asset or liability’.

Yours sincerely

Bruce Porter
Acting Chairman