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Organización Internacional de Comisiones de Valores
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Organização Internacional das Comissões de Valore

December 9, 2009

Exposure Draft: Improvements to IFRSs
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: ED: Improvements to IFRSs

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft on Improvements to IFRSs (the ED or the Exposure Draft).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observation

Standing Committee No. 1 did not have comments on all of the proposed improvements in the Exposure Draft. Accordingly, we have only provided comments below on certain of the proposed revisions.

IFRS 1 – First-time Adoption of IFRS

Accounting Policy Changes in the Year of Adoption

We note the Board's proposed clarification that a first-time adopter would not be required to comply with the provisions of IAS 8, *Accounting Policies, Changes in Accounting Estimates*

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and Errors, if it changes its accounting policies or its use of the exemptions in IFRS 1 between its first interim financial report in accordance with IAS 34, *Interim Financial Reporting*, and its first annual IFRS financial statements. We believe that users are best served if accounting policies and exemptions are consistently applied and if financial statements are comparable across periods. Accordingly, we recommend that the Board better clarify (1) the circumstances in which an entity could appropriately make changes in its accounting policies and/or IFRS 1 exemptions between the first interim financial statements it presents in accordance with IFRSs and its first annual financial statements, (2) that such circumstances should be rare, and (3) the basis for the Board's decision to not require application of IAS 8 by entities changing their accounting policies or their use of IFRS 1 exemptions in the first year of adoption.

In addition, we recommend the Board:

- Revise paragraph 27A to also refer to paragraphs 25 and 26, which elaborate on the reconciliation requirement in paragraphs 24(a) and (b).
- Clarify paragraph 32(c) to require the ***reasons*** for the change in accounting policies or use of exemptions.

Revaluation Basis as Deemed Cost

We believe that this proposed revision undermines comparability across periods. This concern may be addressed by removing the proposed revision or by requiring that prior periods be adjusted based on the revalued amount. While this latter approach would require adjustments, as noted in paragraph BC 5, we do not believe this approach would be onerous, given that the revalued amount would be "pushed back" no more than two years to the date of transition to IFRS. If the Board proceeds with these proposed revisions, we recommend that the Board better explain the reasons for its revisions to paragraph D8.

IFRS 3 - Business Combinations

Measurement of Non-Controlling Interests

The proposed revision to paragraph 19 states that an entity shall measure its non-controlling interests in the acquiree at either fair value or in accordance with other IFRSs. This language may be misconstrued to provide an alternative basis – fair value – for measuring these noncontrolling interests, even when not permitted by other IFRSs. We suggest the Board clarify this is not the case in paragraph 19 as follows:

> For each business combination, the acquirer shall measure any non-controlling interest in the acquiree ~~either at fair value or other measurement basis~~ as required by other IFRSs, except for...

We recommend the Board make conforming revisions to paragraph BC 1.

We believe the phrase (in proposed revised paragraph 19) "that are present ownership instruments and entitle their holders to a pro rata share of the entity's net assets in the event of liquidation" is confusing in the context of that paragraph. We believe the Board should simplify the wording of paragraph 19 to specify that an entity may only apply proportionate share measurement to those non-controlling interests that are equity-classified shares, and that proportionate share measurement does not apply to options, share-based transactions or any other financial instruments for which the measurement basis is specifically described by other IFRSs.

Unreplaced and Voluntarily Replaced Share-Based Payment Awards

We are concerned that the clarifications regarding un-replaced and voluntarily replaced share-based payment awards will create differences between IFRS and US GAAP in an area that was intended to be converged. Accordingly, we recommend that the Board liaise with the FASB prior to finalizing any changes in this area.

Should the Board proceed with these proposed revisions, we recommend the Board:

- Establish a principle regarding voluntarily replaced awards, rather than requiring all such awards to be accounted for in the same manner as awards that an acquirer is obliged to replace, as we believe that some awards may be issued as post-combination compensation. For example, an entity may consider whether the voluntary award is issued at the time of the business combination or separately, whether the award is issued to all employees who hold acquiree awards or to select key employees, and whether the terms of the acquiree award are similar enough to the voluntary award to indicate that voluntary award is a replacement rather than a new award.
- Clarify that the transition provisions in paragraph 64A are retrospective to the date of adoption of IFRS 3 (revised).
- If the Board decides to require that all replaced awards be accounted for in the same manner, consider deleting the discussion of situations in which an entity is obliged to replace an award in paragraph B56, as this distinction is no longer relevant.
- Consider simplifying the language in paragraphs B62A and B62B, as follows:
    - Simply state that the acquirer follow the principles in paragraphs B57 – B62, treating the acquiree's award as if it had been replaced with an award with the exact same terms at the date of the acquisition.
    - Clarify paragraphs B62A and B62B, which, due to the reference to "non-controlling interests" appears to assume that all acquiree awards are equity awards. If the guidance in these paragraphs applies equally to liability awards, we recommend that the language in these paragraphs be more general.
- Explain the basis for its decision in paragraph BC2.

Business as the Acquirer in a Reverse Acquisition

We also believe the Board should address, in conjunction with the FASB, a question regarding reverse acquisitions. Specifically, an entity may legally acquire the business of another entity or the business segment of another group of entities. An acquired business segment might include businesses extracted from parts of entities within a larger vendor group. An acquired business segment could also include some legal entities in their entirety. If a business (including a business segment) as well as an "entity" (presuming this means a legal entity) can be treated as an acquirer, this will affect which assets are recognized at fair value and the amount of goodwill recognized in the transaction.

We understand that there are some accounting practitioners that hold the view that IFRS 3 "Business Combinations" was intended to allow a business (that is, not a legal "entity") as an acquirer in a reverse acquisition, and to account for business combinations on this basis. However, both the original version of IFRS 3 and the version that applies for years commencing on or after 1 July 2009 ("IFRS 3R") describe an acquirer as an entity and an acquiree as a business. The reverse acquisition provisions also require the selection of an entity as the acquirer. These provisions would seem to preclude the possibility of a business that is not an entity being the acquirer in a reverse acquisition.

Those who believe that a business can be an acquirer in a reverse acquisition offer the logic that it would be inconsistent to have different outcomes for the substance of a transaction depending upon whether a legal entity exists. They believe that there are errors in the standards, and that the wording of the standards should be disregarded. Some of the practitioners who support the view that a business may be an acquirer argue that the term "entity" includes a business, but this view seems inconsistent with the construction of the standards.

Other practitioners believe that a business cannot be an acquirer in a reverse acquisition given the wording of IFRS 3R that an acquirer is "an entity." Further, most of the transactions in which debate is occurring involve cash acquisitions but as the reverse acquisition accounting provisions and the notion behind a reverse acquisition only refer to exchanges of equity interests, it would not seem possible that a reverse acquisition can occur in a cash exchange. IFRS 3R also specifically contemplates the situation where one of several legal entities from a larger group can be treated as the acquirer, with the assets of the other entities being recognized at fair value. Practical issues would include when to choose a business rather than an entity as the acquirer (particularly as businesses and entities can overlap) and how to determine the share capital and reserves attributable to a business.

If the IASB is of the view that a business can be the acquirer in a reverse acquisition, IFRS 3R would need to be amended to address the current uncertainty and diversity. This is not a matter that could be addressed by an IFRIC interpretation.

IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

We believe the Board should clarify whether disposal of an equity method investment is required or eligible for discontinued operations presentation. We had understood from the proposed changes that an equity method investment would be subject to the same held for sale classification and measurement provisions as other non-current assets. However, the ED does not change paragraph 32 of IFRS 5, which we interpret as precluding discontinued operations presentation for an equity method investment by itself. In contrast, an equity method investment that is part of a larger disposal group --- e.g. held by a subsidiary that was being disposed of --- would qualify for discontinued operations presentation.

If an equity method investment or a proportionately consolidated entity could be a discontinued operation, we recommend that the Board make conforming revisions to paragraph 36A of IFRS 5 to require that the disclosures in paragraphs 33 – 36 of IFRS 5 also apply to the loss of significant influence of an associate or the loss of joint control of a jointly controlled entity. The effective date language in paragraph 44C should be similarly updated to refer to paragraph 36A.

IFRS 7 – Financial Instruments: Disclosures

We recommend that the Board require entities to present the carrying amount of the financial instruments to which the disclosures in paragraph 36(a) of IFRS 7 relate, so that users better understand the context of the disclosures, in light of the proposed clarification to this paragraph.

In addition, we question whether the deletion of paragraph 36(d) is an improvement. We understand that identifying financial assets whose terms have been renegotiated to avoid becoming past due can be difficult, but we believe it provides useful information to investors. To address one of the points of confusion noted in paragraph BC4 and to make the disclosure more operational, we believe the Board should clarify that the disclosure requirement only applies to financial assets that were renegotiated in the current reporting period to avoid those financial assets becoming past due.

Further, we believe that the disclosures in paragraph 37(c) regarding estimates of the fair value of collateral are useful to users and recommend against their deletion. We note the Board's concern in paragraph BC5 that aggregate disclosure of fair value might be misleading, as some assets may be over-collateralized and others may be under-collateralized. However, we believe that this concern may be addressed by requiring separate disclosure of over- and under-collateralized assets. Additional narrative disclosure discussing the over-and-under collateralized assets could also help eliminate the Board's concern.

<u>IAS 1 – Presentation of Financial Statements</u>

The Board proposes to amend IAS 1, *Presentation of Financial Statements*, to clarify that components of changes in equity may be presented in the statement of changes in equity or in the notes to the financial statements. If the Board proceeds with this change, we recommend that the Board narrow its revisions to paragraph 106 to clarify that ***only*** the reconciliation requirements for classes of accumulated other comprehensive income may be presented in the notes, consistent with the Board's discussion in paragraph BC 1. Currently, the revisions to paragraph 106 suggest that the ***entire*** content of the statement of changes in equity may be presented as a statement or in the notes.

<u>IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors</u>

The Board proposes changes to amend IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, to conform to terminology in the forthcoming final revised chapters of the Framework on Objectives and Qualitative Characteristics. While we do not object to amendments which would align IAS 8 with a revised Framework, we question why the Board could not have made these proposed revisions to IAS 8 through consequential amendments once the final chapters on Objectives and Qualitative Characteristics are issued. We find it unusual for consequential amendments to be proposed prior to the document causing the changes having been issued.

<u>IAS 27 – Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor</u>

The Board proposes to amend the measurement option for such investments from at cost or "in accordance with IAS 39" to at cost or "at fair value through profit and loss." Under current practice, we understand that many of these investments are classified as available for sale, and thus measured at fair value through other comprehensive income. However, this option would no longer be available were the IASB to proceed with this amendment. We consider this amendment to be a significant change to the standard, which should be the subject of a separate consultation, especially as the Board does not explain its reasoning for the change.

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We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,

Julie A. Erhardt
Chairman
IOSCO Standing Committee No. 1