OICU-IOSCO

Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valore

December 1, 2008

International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

RE: Exposure Draft of Proposed 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) August 2008 Exposure Draft of Proposed Improvements to International Financial Reporting Standards (the Exposure Draft or the ED).

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 does not have comments on all of the proposed improvements in the Exposure Draft. Accordingly, we have only responded below to certain of the Board's questions in the Exposure Draft. In particular, we have not commented on proposed transition and effective date for all issues.

Responses to the Board's Questions

IFRS 2 *Share-based Payment*

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?*

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We generally agree with the Board's proposal to amend IFRS 2 to address common control transactions. However, we do not agree with the wording in the proposed amendment related to the contribution of a business on the formation of a joint venture as defined by IAS 31 *Interest in Joint Ventures*. IFRS 2 deals with situations where an entity is **issuing** equity instruments. We are unclear how the fact pattern where an entity contributes a business to form a joint venture would ever be within the scope of IFRS 2. Therefore, we recommend this language be clarified to deal with a situation that could be within the scope of IFRS 2, such as an entity issuing equity instruments in exchange for an interest in a joint venture, or that this language be removed from the proposed amendment.

Question #2: *Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not why, and what alternative do you propose?*

While transition provisions are proposed in the exposure draft, the method of transition is not specified. We note that the method of transition in IFRS 3 (as revised in 2008) is prospective. However, given that the transition provisions required by paragraph 19b of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* would indicate that an entity would apply a change in accounting policy retrospectively unless there is a specific transition provision specified, we believe that the proposed amendment to IFRS 2 should specify the method (prospective or retrospective) that should be utilized to effect this change.

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

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?*

We generally agree with the Board's proposal to amend IFRS 5. However, the application of the amendments is unclear with respect to assets and liabilities included in a disposal group that are not subject to the measurement requirements of IFRS 5 (e.g., deferred taxes, financial assets). Paragraph 5a of the proposed amendment implies that all assets and liabilities in a disposal group are subject to IFRS 5 disclosures only, whereas paragraph BC4 implies that assets and liabilities that are outside the scope of the measurement guidance in IFRS 5 continue to be subject to disclosure requirements of other IFRSs. We recommend that the Board clarify its intent.

IFRS 8 ***Operating Segments***

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?*

We generally agree with the Board's proposal to amend IFRS 8. However, we recommend that the reference to "segment profit or loss" be deleted in paragraph BC1 and in the introduction to the amendments. The proposed amendment is directed at the circumstances in which it is appropriate to disclose a measure of segment assets. Since the disclosure of segment profit or loss is not at issue, we believe the discussion would be clearer without reference to that requirement.

IAS 7 ***Statement of Cash Flows***

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?*

We generally agree with the Board's proposal to amend IAS 7. However, we recommend that the proposed changes to paragraph 14 be clarified to make it clear that prepayments for supplies and services that are fundamentally operating in nature should not be reflected as investing activities (despite the fact that they are recorded as assets in the statement of position).

IAS 18 *Revenue*

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?*

We generally agree with the Board's proposal to amend IAS 18. However, we believe it may be helpful to insert the word "may" in the following sentence from paragraph 21:

> "Features that, individually or in combination, <u>may</u> indicate that an entity is acting as a principal include:"

Without this change we believe the exposure draft, as drafted, could be interpreted to mean the presence of one indicator would require gross presentation.

Question #2: *Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not why, and what alternative do you propose?*

Transition provisions are not proposed in the exposure draft. We suggest that the standard refer to the transition provisions required by paragraph 19b of IAS 8, *Accounting Policies, Accounting Estimates and Errors*.

No effective date for the proposed standard has been included. We suggest that the standard specify an effective date.

Question #3: *The Board proposes to include in the Appendix to IAS 18, Revenue, guidance on determining whether an entity is acting as a principal or as an agent. What indicators, if any, other than those considered by the Board should be included in the guidance proposed?*

We believe that the indicators are sufficient provided they are indicators and not determinative. See our response to Question #1 on IAS 18, above. However, we believe the basis for conclusions should explain why this amendment did not include other possible indicators of a principal versus agency relationship such as contained in Emerging Issues Task Force Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*.

IAS 36 *Impairment of Assets*

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?*

We generally agree with the Board's proposal to amend IAS 36.

IAS 38 *Intangible Assets*

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?*

We generally agree with the Board's proposal to amend IAS 38.

IAS 39 *Financial Instruments: Recognition and Measurement*

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?*

We generally agree with the Board's proposal to amend IAS 39. However, we have the following comments as it relates to the amendments to paragraphs 2(g), AG33, BC3, and BC19.

Paragraph 2(g): Based on our understanding, the scope exception extends to all forward contracts that will result in a business combination. However, the wording in paragraph 2(g) describes the parties to such forward contracts as being the 'acquirer and vendor'. It is unclear who qualifies as a 'vendor'. Generally, such forward contracts are either between an acquirer and an acquiree or an acquirer and another shareholder. Using the term vendor appears to restrict the scope exception to only forward contracts between an acquirer and vendor. We therefore recommend that the wording be changed to say that 'any forward contract that results from an agreement entered into before the acquisition date (i.e.. before the date on which the acquirer obtains control of the acquiree) ~~between an acquirer and a vendor~~, in a business combination, to buy and sell an acquiree at a future date and at a specified price (or on a specified price basis).'

Additionally, we believe it would be helpful for the Board to clarify the principle underlying the scope exception in paragraph 2(g), as the scope exception can be read as a principle or as a bright line. Business combinations may be effected by more than one agreement, and those agreements may be entered into a few days before or after the acquisition date. If the scope exception in paragraph 2(g) is meant to be read to encompass any forward contract resulting from any agreement associated with a particular business combination, even if entered into a few days before or after the acquisition date, we believe the Board should change the wording in paragraph 2(g) to make this clear. If paragraph 2(g) should be read as establishing a bright line that the forward contract must result from the primary agreement effecting a business combination and must be in place before the acquisition date, it would also be helpful if the Board clarified that this was its intent, so as to lead to more consistent application in practice.

Paragraph AG33: We believe that AG33(d)(iii) already encompasses AG33(d)(i) and (ii) and therefore AG33(d)(i) and (ii) are no longer necessary. Additionally, we suggest that the criterion in AG33(d) be presented consistently with BC19. Paragraph BC19 provides a list of situations in which the Board believes contracts denominated in foreign functional currencies are likely to be integral to the contractual arrangement. Paragraphs BC20 and 21 do not provide much explanation as to how the Board went from the "list" in paragraph BC19 to the criteria in AG33(d). We also believe that the language in AG33(d) should be consistent with IAS 21. For example, we suggest changing "characteristic" to "factor" given that paragraph 9 of IAS 21 uses the term "factor". We also believe that it would be helpful if the language in the basis for conclusions with respect to paragraph AG33(d) would clarify that embedded foreign currency derivatives that are clearly not based on achieving a desired accounting result or for speculative purposes and that are denominated in one of the following currencies are considered integral to the arrangement.

Paragraph BC3: This paragraph states that the scope exception in paragraph 2(g) should not apply to currently exercisable option contracts that on exercise will result in control over an entity. These words may give the impression that no scope exception is available for such contracts. Further, the next sentence in paragraph BC3 gives the impression that all currently exercisable options contracts 'are excluded' from the scope of IAS 39. In fact, the options need to be analyzed under other literature in order for the scope exception in paragraph 2(a) to apply; the scope exception is not automatic. For paragraph BC3, we suggest that the latter half of the language in the first sentence be deleted. We suggest that the last sentence be modified to state that currently exercisable options contracts should be analyzed under other literature to determine whether they are eligible for a scope exception under paragraph 2(a).

Paragraph BC 19: We are unclear whether the improvements project is providing a different interpretation of the previous language because this new language requires the currency to meet one of the characteristics of a functional currency of either party to the contract, when the prior exception had no language about functional currency of either party to the contract. We believe the Board should clarify whether it was implicit in the previous language which stated that "commonly used in contracts to purchase or sell" that the currency had one or more characteristics of the functional currency of one of the parties. If the improvements project is providing a different interpretation, then transition provisions should be included. We also note that the list of items in the basis (BC19) is not specifically related to the two criteria in paragraph 9 of IAS 21.

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

Julie A. Erhardt
Chair
IOSCO Standing Committee No. 1