



OICV-IOSCO

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

February 19, 2008

Proposed Improvements to
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Exposure Draft of Proposed Improvements to International Financial Reporting Standards

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) October 2007 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 did 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.

Responses to the Board's Questions

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?*

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: (34.91) 417.55.49 • Fax: (34.91)
555.93.68
mail@oicv.iosco.org • www.iosco.org

We agree with the proposed addition of paragraph 8A to IFRS 5, but we are concerned that the language in the added paragraph is insufficiently qualified. It seems to imply that just having a plan to sell involving a loss of control would result in held-for-sale accounting, but it is not clear that the plan has to meet the criteria in paragraphs 6-8. To further improve paragraph 8A, we suggest the following edits: “An entity that is committed to a sale plan involving loss of control of a subsidiary *that is consistent with the guidance in paragraphs 6-8* shall classify all the assets and liabilities of that subsidiary as held for sale, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.”

Regarding the discussion in paragraph BC3 of IFRS 5, we suggest that this paragraph be reworded to clarify that the loss of control does not occur until the consummation of the transaction. For example, the first sentence of that paragraph could be changed to: “The Board believes that, *after the consummation of* the sale plan described above, the controlling interest of the subsidiary is, in substance, exchanged for a noncontrolling interest.”

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 IFRSs? If not, why?*

IOSCO has issued a public statement that includes what publicly traded companies should disclose at a minimum when financial statements are prepared on the basis of modified or adapted IFRS. Please refer to the attached IOSCO Technical Committee’s statement on this issue. Based on this public statement, some members of SC1 do not believe that the IASB should adopt the proposed change. One member supports the proposed revision to IAS and believes that it will enhance investor protection.

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 the proposal to clarify the classification of a liability that is potentially settled by the issue of equity. However, regarding the specific amendment to paragraph 69(d) of IAS 1, we are concerned that where a debt instrument has a variable share settled conversion option without a cap on the number of shares that could be required to be delivered upon settlement, there is arguably an “unstated” cash settlement option, since the company may not have sufficient shares to satisfy the conversion option in all circumstances and non-settlement may not be an option. The amendment seems to assume that this circumstance will not arise, and we believe the Board should consider addressing this circumstance.

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 the proposal to clarify the interaction between “classified as held for trading” and presentation as “current”. However, regarding the amendments in paragraph 68 of IAS 1, we are concerned that the retention of the phrase “Current assets also include assets held primarily for the purpose of trading” may result in some continuing to interpret that financial assets classified as held for trading in accordance with IAS 39 are required to be presented as current. We are also concerned that the Basis for Conclusions with respect to paragraphs 68 and 71 is not sufficiently clear regarding the reasons for the amendments. Some discussion of the fact that “trading” would include assets and

liabilities for which the company has elected the fair value option might add further clarity to the reasons why the amendment was needed.

Regarding paragraph 139A of IAS 1, it is not clear why the language for early application differs from that of the other amended standards in this Exposure Draft. Specifically, the effective date guidance for other proposed amendments to standards in this Improvements project permits early application provided that an entity also (a) applies the amendments to other IFRSs introduced by this first annual improvements project and (b) applies IAS 1 as revised in 2007. Paragraph 139A of IAS 1, as worded, indicates that an entity could early apply the changes to IAS 1 resulting from this Improvements project but would not need to also early apply the changes made to IAS 1 in 2007 (issued in September 2007). We believe the Board should reconsider whether this was its intent and clarify accordingly.

IAS 7 Statement of Cash Flows (related to the amendments to IAS 16 Property, Plant and Equipment)

Question 10: *Do you agree with the proposal to amend paragraph 68 of IAS 16 and paragraph 14 of IAS 7? If not, why?*

We agree that there is a need to clarify paragraph 14 of IAS 7. However, regarding the amendment of paragraph 14(g) of IAS 7, we are concerned about the clarity of the changes made. It is unclear whether the Board's intent is either:

- (1) that cash payments to manufacture or acquire assets to be rented to others should be classified as operating because for a rental business the assets are akin to inventory. Then if these assets are subsequently sold, those cash flows are also to be included in cash flows from operations because that is part of the principal revenue-producing activities of the entity; or
- (2) only those assets that will be rented with the intention or policy of subsequent sale to others be treated as operating activities because the assets in essence become "inventory" eventually.

If (1) above is the intent of the Board, we suggest making the discussion of cash flows related to rental assets into another bullet, as follows:

"If rental of assets to others is a component of an entity's principal revenue-producing activities, cash payments to manufacture or acquire assets held for rental to others are cash flows from operating activities. Cash receipts from rentals and any subsequent sales of such assets are also cash flows from operating activities."

If (2) above is the Board's intention, we believe the Board should clarify the language as follows:

"However, cash payments to manufacture or acquire assets held for rental to others are cash flows from operating activities only when it is the entity's policy to subsequently sell such assets to others at the end of the rental period."

IAS 10 Events after the Reporting Period

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?*

Although we agree with the proposed amendments to IAS 10, we suggest adding a caveat to paragraphs BC1 to BC3 of IAS 10 dealing with situations where an entity is contractually or legally required to pay

dividends. These could be obligations at period end even if they are not formally declared until after period end.

IAS 17 Leases

Question 12: *Do you agree with the proposal that contingent rent relating to an operating lease should be recognised as incurred? If not, why?*

Although we do not disagree with the proposed amendments to IAS 17, we do not completely understand the difference between paragraphs 33 and 34 of IAS 17. The two paragraphs both seem to state the same information. Accordingly, we suggest that the Board consider whether both paragraphs are needed or consider rewriting paragraph 34 such that it is more clear how it is providing incremental guidance to the principle in paragraph 33.

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?*

We agree with the proposed amendments to paragraph 14(a)(i) in the Appendix to IAS 18, but further believe that similar amendments to the one proposed should be made to paragraphs 14(a)(ii) and (iii) in that Appendix. Paragraph 14(a)(ii) includes the words “related direct costs” that should be amended, as in paragraph 14(a)(i), to read “related transaction costs (as defined in IAS 39)”. Paragraph 14(a)(iii) includes the words “related transaction costs” but it would be helpful for it to be clarified, as is proposed for paragraph 14(a)(i), that “transaction costs” are as defined in IAS 39.

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?*

We agree with the proposed addition of paragraph 111A and other proposed amendments to IAS 19 related to clarifying the accounting for a plan amendment. However, we believe the IASB should also consider clarifying the treatment in situations addressed by paragraph 111(a) of IAS 19 (when an entity is demonstrably committed to make a significant reduction in the number of employees covered by a plan). What if an entity reduces the number of employees covered by a plan but the benefit reduction is only related to past services? Paragraph 111(a) does not include the notion that the impact only relates to future service. While the accounting for curtailments is different under US GAAP, we note that US GAAP is clear that an employee reduction must impact future services to be treated as a curtailment.

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?*

We agree with the proposed changes to paragraph 7 of IAS 19 related to the definition of *return on plan assets*. However, we believe it would improve consistency of application of IAS 19 if the IASB were to provide a principle for how plan administration costs should be treated. For example, the IASB could specify that costs to administer plan benefits would be included in the actuarial assumptions and costs to manage the plan assets would be included in the return on plan assets. The proposed amendments to the

definition of *return on plan assets* in paragraph 7 of IAS 19 would preclude double-counting of plan administration costs, but IAS 19 would not fully clarify in which category (actuarial assumptions or return on plan assets) those costs should be included.

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?*

We appreciate that the IASB is attempting to clear up confusion in the definitions of *short-term employee benefits* and *other long-term employee benefits* by eliminating the term “fall due” and replacing it with the notion of employee entitlement. However, we believe the words “becomes entitled” and “does not become entitled” raise questions. Below are questions that we have identified:

- Does “becomes entitled” mean: (a) “when vested,” (b) “when the event that would give rise to payment (e.g. the absence) occurs,” or (c) “when the benefit is settled”? As an example, if benefits vest within twelve months but the associated payment will not be made within twelve months, should the benefits be treated as short-term employee benefits or long-term employee benefits and discounted?
- Should an entity bifurcate benefits between those that an employee “becomes entitled to” in twelve months and those that the employee “becomes entitled to” later? It may be helpful for the IASB to continue to use the word “wholly” in the definitions of *short-term employee benefits* and *other long-term employee benefits* to clarify this issue.

We suggest that the IASB consider clarifying these issues in a final standard that amends IAS 19.

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?*

We agree with the proposal to amend paragraph 11 of IAS 34. However, we have some concern that, as worded, the amended paragraph 11 might be read to prohibit voluntary presentation of earnings per share in interim periods. We suggest that the IASB clarify whether this was its intent.

Regarding the provisions in paragraph 47 on effective date, it appears to us that if an entity presented earnings per share in its annual financial statements in compliance with IAS 33 but then did not do so in its interim period financial statements, the entity would have an error in its interim period financial statements for which no transition should be provided. We suggest that the IASB clarify this point. In addition, we believe paragraph 47 should clarify that earnings per share is always provided for all periods presented.

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?*

We agree with the proposal to amend paragraph 134(e) of IAS 36. We believe the Board should further consider requiring disclosure, when fair value less costs to sell is determined using discounted cash flow projections, about why the entity did not base the unit's (or group of units') recoverable amount on value in use.

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?*

We do not fully agree with the proposed amendment of paragraph 10 of IAS 39 and the proposed deletion of paragraph AG12A, because we have a general concern that elimination of the *implicit* scope exception for “nonfinancial variables that are specific to a party to the contract” might have much broader ramifications than the Basis for Conclusions is acknowledging and may pull many contracts into derivative accounting that might be currently scoped out. We suggest that the IASB at least consider adopting scope exceptions similar to those in paragraph 10(e) of the FASB’s Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (Statement 133). Paragraph 10(e) of Statement 133 addresses certain contracts that are not traded on an exchange.

In addition, if the IASB proceeds to a final amendment to IAS 39 incorporating the proposed changes related to nonfinancial variables that are specific to a party to the contract, we believe the Board should spend more time in the Basis for Conclusions addressing the type of diversity in practice that has arisen and the reasons why the IASB believes it is appropriate to eliminate the implicit scope exception for nonfinancial variables that are specific to a party to the contract. In the Exposure Draft, paragraphs BC1 to BC4 appear to spend more time addressing the original reasons for the language in the definition rather than addressing the need for the proposed changes and the reasons why those changes are appropriate.

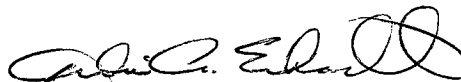
Question 33: *Do you agree with the proposal to amend paragraph AG8 of IAS 39 to clarify that the revised effective interest rate calculated in accordance with paragraph 92 should be used, when applicable, to remeasure the financial instrument in accordance with paragraph AG8? If not, why?*

We agree with the proposed amendments to AG8 of IAS 39. However, we believe the IASB should revise the last sentence of paragraph BC8 in the proposed amendments to IAS 39 to remove an apparent inconsistency with paragraph 92 of IAS 39. The last sentence of paragraph BC8 implies that a revised effective interest rate is calculated only when fair value hedge accounting ceases. In contrast, paragraph 92 of IAS 39 states that “Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.”

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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

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

IOSCO Technical Committee

Statement on Providing Investors with Appropriate and Complete Information on Accounting Frameworks Used to Prepare Financial Statements

6 February 2008

As accounting standards around the world continue to converge and as cross border capital market activity increases, it can no longer be assumed that investors will automatically be familiar with the jurisdiction in which an issuer company is based and the accounting standards that have been used. Furthermore, there may be a growing tendency for investors and other users of financial statements to assume that all accounts are generally comparable, even when they are prepared in accordance with very different generally accepted accounting principles (GAAPs). This tendency exists particularly in circumstances where national standards assert that they are based on but do not fully implement International Financial Reporting Standards (IFRS), i.e., when IFRS have been modified or adapted to the particular circumstances of a national market. The IOSCO Technical Committee is concerned that investors run the risk of making investment decisions without a full understanding of financial statement data if they are not fully aware of the basis on which financial statements are prepared, and of the accounting standards that underpin the company's policies.

The risk of misunderstanding can be mitigated by making sure that the information regarding the company's accounting policies and the reporting framework on which they are based is fully and appropriately described in the financial statements and that investors and other users can readily get access to the accounting standards and other authoritative literature which underpin the policies. To that end the Technical Committee recommends that all annual and interim financial statements that are prepared on the basis of national standards that are modified or adapted from IFRS and published by publicly traded companies should include at a minimum the following statements, (which should be tailored to the company's circumstances and the markets in which securities may be traded):

1. A clear and unambiguous statement of the reporting framework on which the accounting policies are based;
2. A clear statement of the company's accounting policies on all material accounting areas;
3. An explanation of where the accounting standards that underpin the policies can be found;
4. A statement that explains that the financial statements are in compliance with IFRS as issued by the IASB, if this is the case; and
5. A statement that explains in what regard the standards and the reporting framework used differs from IFRS as issued by the IASB, if this is the case.