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13 September2002

Sir David Tweedie, Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
UNITED KINGDOM

**Exposure Draft of Proposed Improvements to International Accounting Standards**

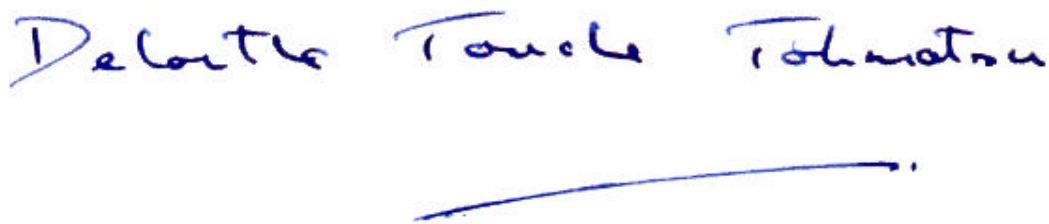
Dear Sir David,

Deloitte Touche Tohmatsu and its Member Firms are pleased to comment on the above Exposure Draft issued by the International Accounting Standards Board. The Exposure Draft contains 13 individual Exposure Drafts of proposed changes to 13 IAS, plus Proposed Consequential Amendments to IAS – 14 comment documents in all. Our comments are set out in 14 corresponding Appendices to this letter:

<b>Appendix</b>	<b>Proposed Improvements To:</b>
1	IAS 1 (revised 1997), Presentation of Financial Statements
2	IAS 2 (revised 1993), Inventories
3	IAS 8 (revised 1993), Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
4	IAS 10 (revised 1999), Events After the Balance Sheet Date
5	Withdrawal of IAS 15 (reformatted 1994), Information Reflecting the Effects of Changing Prices
6	IAS 16 (revised 1998), Property, Plant and Equipment
7	IAS 17 (revised 1997), Leases
8	IAS 21 (revised 1993), The Effects of Changes in Foreign Exchange Rates
9	IAS 24 (reformatted 1994), Related Party Disclosures
10	IAS 27 (revised 2000), Consolidated Financial Statements and Accounting for Investments in Subsidiaries
11	IAS 28 (revised 2000), Accounting for Investments in Associates
12	IAS 33, Earnings Per Share
13	IAS 40, Investment Property
14	Consequential Amendments to International Accounting Standards and SIC Interpretations

We have one general comment relating to the italicised introduction that is included at the beginning of each of the revised IAS in the Improvements Exposure Draft. In each case the sentence “International Accounting Standards are not intended to apply to immaterial items” is maintained. We note, however, that in the Exposure Drafts of Revised IAS 32 and IAS 39, reference to materiality has been deleted. Likewise, ED 1 on First-Time Application of IFRS makes no reference to materiality. Because the Exposure Drafts of revised IAS 32 and IAS 39 and ED 1 were released after the Improvements Exposure Draft, we presume that they reflect newer thinking of the Board and that reference to materiality will be deleted from the improved IASs as well. If that is done, there will be no principle of materiality in any authoritative IAS or IFRS. We think such a principle should be maintained in IAS and IFRS.

If you have any questions concerning our comments, please contact Mr. Ken Wild in our International Accounting Standards Global Office, London, at +44-20-7303-4449.

A handwritten signature in blue ink that reads "Deloitte Touche Tohmatsu". Below the signature is a long, horizontal blue line that tapers to a point on the right side.

Sincerely,

**DELOITTE TOUCHE TOHMATSU**

**APPENDIX 1**  
**Comments of Deloitte Touche Tohmatsu on**  
**Proposed Improvements to**  
**International Accounting Standard IAS 1 (revised 1997)**  
**Presentation of Financial Statements**

**Question 1**

**Do you agree with the proposed approach regarding departure from a requirement of an International Financial Reporting Standard or an Interpretation of an International Financial Reporting Standard to achieve a fair presentation (see proposed paragraphs 13-16)?**

We agree that the “fair presentation” override should be retained. However, we strongly disagree with the introduction of regulatory requirements into IFRSs and believe they should be deleted from the Standard. We do not believe it should be the responsibility of the IASB to provide exceptions to its principles based on the requirements of the broad range of regulatory bodies that oversee the application of IFRS at national levels. The introduction of this exception in IFRSs will negatively affect comparability of financial reporting around the world. We recommend deletion of the phrase “if the relevant regulatory framework requires or otherwise does not prohibit such a departure” from paragraph 13 as well as the deletion of paragraph 15 in its entirety.

We strongly support the conclusion in IAS 1.12 that “inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.” The proposed IAS 1.15 seems to contradict this fundamental concept.

**Question 2**

**Do you agree with prohibiting the presentation of items of income and expense as ‘extraordinary items’ in the income statement and the notes (see proposed paragraphs 78 and 79)?**

While we do not disagree with this decision, we note that it pre-empts a key issue in the performance reporting project. In practice today this is not an issue because income and expense items are rarely classified as extraordinary under IAS, and almost always are limited to events not within the control of company management. Nonetheless, it does seem odd to amend IAS 1 while the performance reporting project is under way. As long as these items are clearly described, a label of extraordinary is not problematic.

**Question 3**

**Do you agree that a long-term financial liability due to be settled within twelve months of the balance sheet date should be classified as a current liability, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue (see proposed paragraph 60)?**

We agree with the Board’s decision on this matter and believe that either IAS 1 or IAS 10 should be revised to specifically require disclosure of such agreements that are completed after the balance sheet date and before the financial statements are authorised for issue.

**Question 4**

**Do you agree that:**

- (a) a long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement should be classified as current at the balance sheet date, even if the lender has agreed after the balance sheet date, and before the financial statements are authorised for issue, not to demand payment as a consequence of the breach (see proposed paragraph 62)?**
- (b) if a lender was entitled to demand immediate repayment of a loan because the entity breached a condition of its loan agreement, but agreed by the balance sheet date to provide a period of grace within which the entity can rectify the breach and during that time the lender cannot demand immediate repayment, the liability is classified as noncurrent if it is due for settlement, without that breach of the loan agreement, at least twelve months after the balance sheet date and:**

- (i) **the entity rectifies the breach within the period of grace; or**
- (ii) **when the financial statements are authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified (see proposed paragraphs 63 and 64)?**

We agree with part (a) of question 4. However, we feel that there are inconsistencies between (a) and (b), and we therefore disagree with part (b) of Question 4. As we understand the principle of 4(a), the balance sheet is interpreted strictly as financial position *at the balance sheet date*. Consistent with that principle, in the circumstance of 4(b) the entity should classify the loan as noncurrent only if the breach has been rectified *by the balance sheet date*. To illustrate, two companies breach their loan covenants prior to balance sheet date and before the balance sheet date the lenders give both companies a period of grace to rectify the breach. If one company remedies the breach before balance sheet date and the other remedies the breach after balance sheet date but before the date of issue of the financial statements, we believe that the two companies are in substantively different positions at the balance sheet date. The proposed amendment would, however, reflect identical classification for these two scenarios.

Further, regarding circumstance (a) above, if an agreement to refinance or to reschedule the payments on a long-term basis has been reached after the balance sheet date and before the financial statements are authorised for issue, IAS 1 should require disclosure of that fact. Also, regarding circumstance (b) above, if a breach occurs or is corrected after the balance sheet date or if a grace period is granted after balance sheet date, IAS 1 should require disclosure of that fact.

Additionally, if the period of grace extends at least twelve months from the balance sheet date and during that time the lender cannot demand immediate repayment, then the classification would be non-current by definition as outlined in paragraph 57.

#### **Question 5**

**Do you agree that an entity should disclose the judgements made by management in applying the accounting policies that have the most significant effect on the amounts of items recognised in the financial statements (see proposed paragraphs 108 and 109)?**

We do not support this proposed disclosure. It is not clear how this disclosure differs from that proposed to be required by IAS 1.110, (which we support if clearly outside the financial statements – see question 6). The single paragraph of guidance supporting IAS 1.108 is not very helpful in clarifying what is required by IAS 1.108, and we are concerned that the resulting disclosures will “boilerplate”. In place of the proposed paragraphs 108 and 109, we would support adding specific disclosures in specific Standards. For example, for most entities, revenue recognition is probably the most significant accounting policy disclosure. We would support a specific disclosure requirement in IAS 18 regarding judgements in applying revenue recognition policies if there is clear implementation guidance. In general, we think the type of disclosures contemplated in the proposed paragraph 108 may be more appropriately included in a “management discussion and analysis” (MD&A), and we encourage IASB to consider an MD&A agenda project.

#### **Question 6**

**Do you agree that an entity should disclose key assumptions about the future, and other sources of measurement uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year (see proposed paragraphs 110-115)?**

While we believe these disclosures are helpful to the users of financial statements, we also believe that these disclosures should not be part of the audited financial statements and should be noticeably separate from the historical financial information. We note that the IASB has a project on its research agenda to potentially require MD&A type disclosures. The proposed paragraphs 110-115 may be more appropriately addressed as part of that project.

<p><b>IAS 1, Presentation of Financial Statements Terminology:</b></p>	<p><b>Deloitte Touche Tohmatsu View</b>  We note an inconsistency in terminology between IAS 33 as revised and IAS 1 as revised. IAS 33 uses “profit or loss from continuing operations” and “net profit or loss for the period” in the determination of EPS. IAS 1 uses “profit and loss attributable to owners of the parent”. While the intent may be that these terms are interchangeable, we believe that this is not readily apparent and may cause confusion.</p>
<p><b>IAS 1.10:</b> “Presents fairly” will be defined as “represent[ing] faithfully the effects of transactions and other events in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework for the Preparation and Presentation of Financial Statements”.</p>	<p>An entity’s financial reporting must be held to a higher standard than simply compliance with a written body of standards. At the same time, we do not believe that an entity’s financial reporting can be judged to be a “fair presentation” (or “a true and fair view”) in the abstract. The assessment of fairness must be rooted to something more concrete. Therefore, we support the linkage of fair presentation to representational faithfulness and to the definitions and recognition criteria in the Framework. We believe, however, that paragraphs 2 and 3 of the Framework seem to need revision in light of IAS 1.10.</p>
<p><b>IAS 1.10:</b> Financial statements that follow IFRS and Interpretations of IFRS, with additional disclosure when necessary, are presumed to achieve a fair presentation.</p>	<p>We agree.</p>

<p><b>IAS 1.11:</b> Financial statements shall not be described as complying with IFRS unless they comply with all applicable IFRS and Interpretations.</p>	<p>This provision is not a change from the existing IAS 1. We are a little uneasy with how IAS 1.11 might be interpreted in light of the revised IAS 1.15. IAS 1.15 says that if national law requires a presentation deemed misleading, the enterprise makes the misleading presentation, adds disclosure, and then describes the financial statements as conforming to IFRS. In other words, national law prevails. A similar “national law prevails” interpretation should be clearly prohibited with regard to IAS 1.11. That is, if national law or regulation mandates a particular accounting treatment that is at variance with an IFRS or Interpretation, the financial statements cannot be described as conforming to IFRS without qualification. While we disagree with IAS 1.15, we think application of IAS 1.15 will rarely occur. Pressure for a “national law prevails” view of IAS 1.11 is likely to be a more common occurrence. Hence we think it should be addressed clearly in IAS 1 by saying that such financial statements depart from IFRS.</p>
<p><b>IAS 1.13-15:</b> In the extremely rare circumstances in which management concludes that compliance with a requirement in an International Financial Reporting Standard or an Interpretation of a Standard would be so misleading that it would conflict with the objective of financial statements set out in the Framework:</p>	
<p><input type="checkbox"/> <b>IAS 1.13:</b> If departure from the requirement is not prohibited by national law, the entity will make that departure and provide the disclosures specified in IAS 1.14; and</p>	<p>We agree.</p>
<p><input type="checkbox"/> <b>IAS 1.15:</b> If departure from the requirement is prohibited by national law or regulation, the entity must reduce, to the maximum extent possible, the perceived misleading aspects of compliance by providing disclosures specified in IAS 1.15.</p>	<p>While we do not agree with this conceptually (national law should not override IAS) we think application of IAS 1.15 will rarely occur. Consequently, proposed IAS 1.15 does not concern us as much as IAS 1.11.</p>
<p>Standards on selection of accounting policies currently in IAS 1.20-22 will be moved to IAS 8.</p>	<p>We agree.</p>

<p><b>IAS 1.35:</b> IAS 1 will be amended to exempt an entity from restating comparative information for a reclassification under IAS 1 when the restatement would cause "undue cost or effort".</p>	<p>We do not support using the term "undue cost and effort" here or where it is proposed to be used elsewhere (such as IAS 1.114 and in the revised IAS 8.15(d), IAS 8.19(d), IAS 8.21, IAS 8.23(d)). We think "undue" is subject to a wide range of interpretation and fails to recognise the importance of trend analysis to the user of financial statements. We encourage the Board to emphasise that it expects restatement in all but very rare circumstances. We would propose wording such as "In extremely rare circumstances, it may be impracticable...". Further, the Standard should provide guidance on circumstances when restatement is impracticable.</p>
<p><b>IAS 1.49:</b> A balance sheet presentation that classifies assets and liabilities between "current" and "noncurrent" will be required unless a "liquidity presentation" (decreasing order of liquidity without subtotals for "current" and "noncurrent") provides more relevant and reliable information. Currently, IAS 1 allows free choice between a current/noncurrent and a liquidity presentation.</p>	<p>We agree that a classified balance sheet should be required except for financial institutions and perhaps other entities for which the notion of a current operating cycle is not relevant.</p> <p>Proposed IAS 1.53 states that information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity, and we agree. However, we do not agree with the second sentence of that paragraph which says that IAS 32 already requires disclosure of the maturity dates of liabilities (IAS 32.49(b) says this "may warrant disclosure") and, furthermore, the disclosure is generally given for selected liabilities and in broad periods (such as "due in 2 to 10 years"). We suggest that the Board consider whether IAS 32.49(b) results in comprehensive disclosure.</p>
<p><b>IAS 1.54(d):</b> Clarifies that restricted cash and cash equivalents are current assets unless the restriction is for a period of more than twelve months.</p>	<p>We agree. However the proposed wording is confusing because of the use of a double negative. Interpretation may therefore be difficult especially for non-English speakers. We propose: "is cash or a cash equivalent, unless the cash or cash equivalent is restricted from being exchanged or used to settle a liability for more than twelve months from the balance sheet date."</p>

<p><b>IAS 1.60:</b> Refinancing after the balance sheet date should not be taken into account in classifying liabilities as current/non-current.</p>	<p>We agree. However, if an agreement to refinance or to reschedule the payments on a long-term basis has been reached after the balance sheet date and before the financial statements are authorised for issue, IAS 1 should require disclosure of that fact.</p>
<p><b>IAS 1.60-61:</b> If, at the balance sheet date, a lender has an absolute right to demand repayment immediately, the liability is a current liability, even if, after the balance sheet date, the lender agreed not to demand payment. Nor is an expectation or history of “rolling over” debt on a long-term basis considered in classifying a liability.</p>	<p>We agree. As with the previous item, we favour adding to IAS 1 a requirement to disclose a post-balance sheet agreement by the lender not to demand payment.</p>
<p><b>IAS 1.62-63:</b> If a borrowing agreement has a covenant that makes a liability payable on demand if certain conditions related to the borrower’s financial position are breached, and those conditions are breached at the balance sheet date, the liability is classified as current, even if corrected after balance sheet date. An exception to this principle is proposed if, prior to the balance sheet date, the lender has granted a grace period in which to correct the breach and, when the financial statements are authorised for issue, either (a) the borrower has corrected the breach or (b) the grace period has not yet expired.</p>	<p>As explained in our response to Question 4, we agree in part with this proposal but we disagree with one aspect of it. If a lender was entitled to demand immediate repayment of a loan because the entity breached a condition of its loan agreement, but agreed by the balance sheet date to provide a period of grace within which the entity can rectify the breach and during that time the lender cannot demand immediate repayment, we believe that the entity should classify the loan as noncurrent only if the breach has been rectified by the balance sheet date.</p>
<p><b>IAS 1.65:</b> Certain line-item disclosures that are required by other Standards to be on the face of the balance sheet (including investment property and biological assets) or on the face of the income statement (gain/loss on disposal of a discontinuing operation) will be added to the line items listed in IAS 1.</p>	<p>We agree. However, we believe that the list in IAS 1.65 should include the balance sheet line-item disclosure required in IAS 28.28.</p> <p>We note that this is part of a broader procedural issue of how to deal with the “ripple effect” that each new IFRS will have on existing IFRS and IAS. The issue is broader than just “consequential amendments” and runs to the question of the structure of IASB standards (numerical sequence vs. current text).</p>
<p><b>IAS 1.76:</b> Certain line-item disclosures on the face of the income statement will be eliminated, including results of operating activities, profit or loss from ordinary activities, and extraordinary items.</p>	<p>While we do not necessarily disagree with the proposals, we think this pre-empted issues under consideration in the performance reporting project. We think that disclosure of operating profit on the face of the income statement should continue to be required until that issue is resolved in the performance reporting project. We support adding a requirement to disclose what the entity includes in operating profit.</p>

<p><b>IAS 1.91:</b> The current IAS 1 requirement to present a Statement Showing Changes in Equity will be replaced by a Statement of Changes in Equity that must show either (a) all changes in equity or (b) changes in equity other than those arising from capital transactions with owners and distributions to owners.</p>	<p>We concur with changing the name to Statement of Changes in Equity.</p> <p>IAS 1.95 requires disclosure of a subtotal of the items in paragraph 91(b). This disclosure requirement should be in bold type, like other disclosure requirements (perhaps simply by adding it to IAS 1.95(b)).</p> <p>Further, we think IAS 1.95 should acknowledge that a subtotal of the items in IAS 1.91(a) plus 1.91(b) is permitted. This is “comprehensive income” as defined in SFAS 130.</p>
<p><b>IAS 1.104</b></p>	<p>We believe that internal consistency among Standards and with the Framework is vital. The measurement bases identified in IAS 1.104 (historical cost, current cost, net realisable value, fair value, or recoverable amount) are not consistent with the measurement bases identified in paragraph 100 of the Framework (historical cost, current cost, realisable value, and present value.) We believe that the measurement bases described in IAS 1.104 are appropriate (as present value is a method, not an attribute) and suggest revising the Framework to eliminate the inconsistency.</p>
<p><b>IAS 1.108:</b> Added accounting policy disclosure: judgements made by management in applying the accounting policies that have the most significant effect on the amounts of items recognised in the financial statements.</p>	<p>We do not support the proposed disclosure. Please see our responses to Questions 5 and 6.</p>
<p><b>IAS 1.110:</b> Added accounting policy disclosure: key assumptions about the future, and other sources of measurement uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.</p>	<p>We believe that this disclosure should not be part of the audited financial statements. Please see our responses to Questions 5 and 6.</p>
<p><b>IAS 1.117:</b> Disclosure of the following items currently required by IAS 1 will be dropped: an entity’s country of incorporation (disclosure of country of domicile is not dropped), the address of its registered office, and the number of its employees.</p>	<p>We think there is merit in continuing to require disclosure of the country of incorporation, because the entity is particularly subject to that country’s laws, especially securities and accounting laws.</p> <p>Regarding disclosure of country of domicile, we think domicile should be defined. Does it mean country of incorporation, country in which corporate headquarters is located, country in which a majority of revenue is earned, or other?</p>

**APPENDIX 2**  
**Comments of Deloitte Touche Tohmatsu on**  
**Proposed Improvements to**  
**International Accounting Standard IAS 2 (revised 1993)**  
**Inventories**

**Question 1**

**Do you agree with eliminating the allowed alternative of using the last-in, first-out (LIFO) method for determining the cost of inventories under paragraphs 23 and 24 of IAS 2?**

We agree. To the single reason for doing so cited by the Board in its basis for conclusions (LIFO does not follow the normal physical flow of inventories) we would add balance sheet meaningfulness and opportunities for income manipulation.

**Question 2**

**IAS 2 requires reversal of write-downs of inventories when the circumstances that previously caused inventories to be written down below cost no longer exist (paragraph 30). IAS 2 also requires the amount of any reversal of any write-down of inventories to be recognised in profit or loss (paragraph 31). Do you agree with retaining those requirements?**

We agree. IAS 2 is a cost-based inventory accounting model. We concur that carrying amount should not exceed recoverable amount (for which net realisable value is a reasonable estimate). But writing inventory down to its recoverable amount does not alter its cost. If the accounting principle is lower of cost or recoverable amount, then reversal of the write down and recognition of the gain is appropriate.

There is a broad issue of whether to require reversals of losses recognised in previous periods. IAS 36, Impairment of Assets, requires reversals of impairment losses in certain circumstances (paragraphs 95-101). IAS 16, Property, Plant and Equipment, and IAS 38, Intangible Assets, allow revaluations and require that a revaluation increase be recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense (paragraph 37 of IAS 16 and paragraph 76 of IAS 38).

We believe a significant benefit of IAS is the internal consistency of Standards for treating impairment losses (including reversals of impairment losses). We believe that any change to the treatment of reversals of impairment losses should be made generally, not in one or two specific places. Therefore, these requirements should be retained.

<p><b>IAS 2, Inventories</b></p> <p><b>IAS 2.1(c):</b> Regarding inventories carried at fair value, the word “producer” will be deleted to permit brokers and dealers (as well as producers) to measure their inventories at net realisable value (whether below or above cost) in accordance with “well established practices in certain industries”.</p>	<p><b>Deloitte Touche Tohmatsu View</b></p> <p>We support fair value measurement for inventories with ready markets and minimal costs to market. However, IAS 2.1(c) does not define “certain industries” or “well established practices”. We believe that simply deleting the word “producer” will result in inconsistent practice under IAS. The exclusion should be expanded to indicate that it is appropriate only when there is an active market for the product, there are minimal costs to market and there is a negligible risk of failure to sell the product.</p> <p>The terms “well-established practices” and “accepted industry practice” are used here, in the proposed revision to IAS 28.1, and in IAS 39.120 without definition. We encourage the Board to provide guidance on what is a well-established industry practice.</p>
<p><b>IAS 2.16:</b> Additional guidance will be included for inventories of service providers: If revenues related to services provided have not been recognised, the remaining work in progress is considered to be inventory and is measured at the costs of production, which do not include profit margins or non-production costs that are often factored into prices.</p>	<p>We agree.</p>
<p><b>IAS 2.21:</b> SIC 1, Consistency – Different Cost Formulas for Inventories, will be incorporated into IAS 2.</p> <p><b>IAS 2.21A</b></p>	<p>We agree.</p> <p>This paragraph provides an example of application of IAS 2.21. We do not think it should be in bold italic type.</p>
<p><b>IAS 2.23:</b> LIFO will be eliminated. Currently, it is the allowed alternative under IAS 2.23.</p>	<p>We agree.</p>
<p><b>IAS 2.34(c):</b> Added disclosure: The amount of write-downs of inventory to net realisable value.</p>	<p>We agree.</p>

**APPENDIX 3**  
**Comments of Deloitte Touche Tohmatsu on**  
**Proposed Improvements to**  
**International Accounting Standard IAS 8 (revised 1993)**  
**Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies**

**Question 1**

**Do you agree that the allowed alternative treatment should be eliminated for voluntary changes in accounting policies and corrections of errors, meaning that those changes and corrections should be accounted for retrospectively as if the new accounting policy had always been in use or the error had never occurred (see paragraphs 20, 21, 32 and 33)?**

We agree. The cumulative effect of the accounting change or error is not an indicator of the performance in the current period. Rather, it is an adjustment of performance in one or more prior periods, and should be reported as such.

**Question 2**

**Do you agree with eliminating the distinction between fundamental errors and other material errors (see paragraphs 32 and 33)?**

We do not agree. We believe that prior period financial statements should be restated only if those statements are now determined to have been misleading based on the newly discovered information. The Framework acknowledges (paragraph 34) that “most financial information is subject to some risk of being less than a faithful representation of that which it purports to portray” and that “it may be relevant to recognise items and to disclose the risk of error surrounding their recognition and measurement.” Users of financial statements are – or should be – aware of such uncertainties. In our judgement, if recognition and measurement decisions in the prior financial statements were made in good faith with appropriate disclosure of key assumptions and uncertainties, unless the prior financial statements were clearly misleading we do not see a reason to restate them. We believe that reporting the effect of non-fundamental errors in the income statement in the period in which the error is discovered results in greater transparency than does restatement of comparative prior period data. We believe that fundamental errors and other errors can be distinguished by applying a straight-forward test: is the matter one on which the auditor would not have issued an unqualified audit report had the auditor been aware of the fact at the time.

<b>IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies</b>	<b>Deloitte Touche Tohmatsu View</b>
<p><b>Title:</b> The name of the Standard will be changed to <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>.</p>	<p>We agree.</p>
<p><b>Accounting Policies:</b></p>	
<p><b>IAS 8.4-6:</b> GAAP hierarchy: The following sources must be applied in descending order of authoritativeness:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> International Financial Reporting Standard, including any appendices that form part of the Standard (note that existing IAS are treated as IFRS for this purpose).</li> <li><input type="checkbox"/> Interpretations.</li> <li><input type="checkbox"/> Appendices to an IFRS that do not form part of the Standard.</li> <li><input type="checkbox"/> Implementation guidance issued by IASB in respect of the Standard.</li> </ul>	<p>We concur with inclusion of a hierarchy. We concur with the hierarchical sequencing. We note, however, that the first three of the four items in the hierarchy will all have been reviewed and approved by the IASB Board, suggesting that they should be of equal authority.</p> <p>Particularly because fair presentation is linked to the Framework in IAS 1.10, we believe IAS 8.4 should explain how the Framework fits into the hierarchy.</p> <p>Also, it is not clear where bases for conclusions in IFRS fit into the hierarchy.</p> <p>Perhaps clarify that “guidance in Standards” in IAS 8.6(a) means “guidance in International financial Reporting Standards” – parallel to IAS 8.4.</p> <p>We do not think that paragraph 8.6(c) is workable. Is it up to each entity or each auditor to decide which conceptual frameworks are consistent with the IASB Framework? If IASB has certain ones in mind here, it should have identified them in its proposal.</p>
<p><b>IAS 8.4-6:</b> The standard and guidance currently in IAS 1.20-22 regarding selection of accounting policies will be moved to IAS 8.</p>	<p>We agree.</p>
<p><b>IAS 8.9b</b> Consistency of terminology with IAS 22</p>	<p>The terminology used in IAS 8.9(b) is inconsistent with the terminology in IAS 1.22. While IAS 1.22 uses the term “more appropriate presentation” when addressing changes in presentation, IAS 8.9 uses the term “more relevant and reliable presentation”. We believe that both paragraphs address the same issue and as such should have consistent terminology.</p>

<b>Changes in Accounting Policies:</b>	
<b>IAS 8.26:</b> A change in the measurement basis or measurement method applied is a change in accounting policy, not a change in estimate.	We agree.
<b>Errors:</b>	
<b>IAS 8.3:</b> Errors are defined as newly discovered omissions or misstatements of prior period financial statements based on information that was available when the prior financial statements were prepared.	We agree.
<b>IAS 8.31:</b> The distinction between fundamental and other material errors (IAS 8.31-32) will be eliminated.	We do not agree. We believe that prior period financial statements should be restated only if those statements are now determined to have been misleading based on the newly discovered information. The Framework acknowledges (paragraph 34) that “most financial information is subject to some risk of being less than a faithful representation of that which it purports to portray” and that “it may be relevant to recognise items and to disclose the risk of error surrounding their recognition and measurement.” Users of financial statements are – or should be – aware of such uncertainties. In our judgement, if recognition and measurement decisions in the prior financial statements were made in good faith with appropriate disclosure of key assumptions and uncertainties, unless the prior financial statements were clearly misleading we do not see a reason to restate them. We believe that fundamental errors and other errors can be distinguished by applying a straight-forward test: is the matter one on which the auditor would not have issued an unqualified audit report had the auditor been aware of the fact at the time.
<b>IAS 8.32:</b> All errors will be accounted for retrospectively by restating all prior periods presented and adjusting the opening balance of retained earnings of the earliest prior period presented. Cumulative effect recognition in income will be prohibited.	We do not agree. Please see our response to Question 2.

<b>Other Matters:</b>	
<b>IAS 8.15(d), IAS 8.19(d), IAS 8.21, IAS 8.23(d):</b> IAS 8 will be amended to exempt an entity from restating comparative information when the restatement would require “undue cost or effort”.	We do not support using the term “undue cost and effort” here or where it is proposed to be used elsewhere (such as IAS 1.35 and IAS 1.114). Please see our earlier comment on IAS 1.35.
<b>Extraordinary Items:</b> The extraordinary item classification on the income statement will be eliminated. All items of income and expense will be part of the ordinary activities of the entity.	While we do not disagree with this decision, we note that it pre-empts a key issue in the performance reporting project.
<b>IAS 8.19.</b> IAS 8 will be amended to require disclosure, for a new IASB Standard that has not yet come into effect, of the nature of the future change in accounting policy, the date the entity plans to adopt the Standard, and the estimated effect of the change on financial position or, if such an estimate cannot be made without “undue cost or effort”, a statement to that effect.	We support this disclosure.
<b>IAS 8.7:</b> SIC 18, Consistency – Alternative Methods, will be incorporated into IAS 8.	We agree.
<b>Use of bold italic type in revised IAS 8</b>	We question whether any of the following are matters of principle that should be presented in bold italic type: 8.7, 8.11, 8.12, and 8.30.

**APPENDIX 4**  
**Comments of Deloitte Touche Tohmatsu on**  
**Proposed Improvements to**  
**International Accounting Standard IAS 10 (revised 1999)**  
**Events After the Balance Sheet Date**

<b>IAS 10, Events After the Balance Sheet Date</b>	<b>Deloitte Touche Tohmatsu View</b>
<p><b>IAS 10.12:</b> IAS 10 will clarify that an entity should not recognise a liability for dividends declared after the balance sheet date because it is not a present obligation at balance sheet date as described in IAS 37.</p>	<p>While we agree that dividends declared after the balance sheet date should not be recognised as a liability at the balance sheet date, we think that IAS 10 could set a more principle based standard: Dividends should be accrued when there is a legal liability for payment. We acknowledge that, in theory, an entity may have a constructive obligation for payment of a dividend that is not yet a legal liability. However, we believe that this will rarely, if ever, be the case. If the Board believes an entity can have a constructive obligation to pay a dividend, the Standard should provide guidance on when such a constructive obligation arises.</p>

**APPENDIX 5**  
**Comments of Deloitte Touche Tohmatsu on**  
**Proposed Withdrawal of**  
**International Accounting Standard IAS 15 (reformatted 1994)**  
**Information Reflecting the Effects of Changing Prices**

<b>IAS 15, Information Reflecting the Effects of Changing Prices</b>	<b>Deloitte Touche Tohmatsu View</b>
<p><b>IAS 15 will be withdrawn.</b> IAS 15 (issued 1981) had required entities to present supplementary information on one of two bases: (1) adjusted for changes in the general price level or (2) balance sheet items measured at replacement cost. In 1989, the IASC had made the Standard optional, and entities stopped providing the information. Meanwhile, subsequent Standards, including IAS 16, 32, 36, 39, and 41, have addressed reporting the effects of changing prices for individual classes of assets.</p>	<p>We agree.</p>

**APPENDIX 6**  
**Comments of Deloitte Touche Tohmatsu on**  
**Proposed Improvements to**  
**International Accounting Standard IAS 16 (revised 1998)**  
**Property, Plant and Equipment**

**Question 1**

**Do you agree that all exchanges of items of property, plant, and equipment should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably (see paragraphs 21 and 21A)?**

While we agree in principle with this conclusion, we believe that it should be addressed in a broader revenue recognition project rather than as an improvement to IAS 16. At the same time, a broader project is required on property, plant and equipment to determine whether a cost or fair value model should be adopted. In addition, we note that the proposed accounting would result in inconsistent answers, as a revaluation of an owned asset will result in a movement in equity whereas an exchange of assets will result in a movement in the income statement, creating a possible opportunity for earnings management by exchanging similar assets. For these reasons, we do not believe that this amendment should be made at this time.

The Board's decision not to allow gain or loss recognition on exchanges of similar inventory items (see Question 2 below) reinforces our view that a possible amendment of IAS 16 regarding exchanges of similar property, plant, and equipment should not be made at this time but should be considered as part of a revenue recognition project and a project to reconsider the measurement of property, plant and equipment. It seems odd that exchanges of similar property, plant and equipment should be recognised in earnings, while exchanges of similar inventories should not.

**Question 2**

**Do you agree that all exchanges of intangible assets should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably? (See the amendments in paragraphs 34-34B of IAS 38, Intangible Assets, proposed as a consequence of the proposal described in Question 1.) (Note that the Board has decided not to amend, at this time, the prohibition in IAS 18, Revenue, on recognising revenue from exchanges or swaps of goods or services of a similar nature and value. The Board will review that policy later in the context of a future project on the Recognition of Revenue.)**

While we agree in principle with the conclusions (a) to measure exchanges of similar intangible assets at fair value and (b) to measure exchanges of similar goods and services at carrying amount, we do not believe that this amendment should be made at this time. Rather, we believe that those conclusions should be addressed in broader revenue recognition and asset measurement projects rather than as an improvement to IAS 38.

**Question 3**

**Do you agree that depreciation of an item of property, plant, and equipment should not cease when it becomes temporarily idle or is retired from active use and held for disposal (see paragraph 59)?**

Whether depreciation should cease when an asset is idle depends on circumstances. Depreciation is the systematic allocation of the cost of an asset over its useful life in a pattern that reflects the consumption of benefits inherent in the asset. Some benefits are consumed by the passage of time. Other benefits are consumed by productive use of the asset. Depreciation reflects both of those. Some benefits are consumed abruptly. Impairment reflects those. We therefore think that instead of requiring that depreciation always continue when an asset is idle, a better answer would be to link the continuance or discontinuance of depreciation to the pattern of benefit consumption.

<p><b>IAS 16, Property, Plant and Equipment</b></p> <p><b>IAS 16.9:</b> Proposed deletion of paragraph elaborating on probable future benefits for asset recognition.</p>	<p><b>Deloitte Touche Tohmatsu View</b></p> <p>We found this paragraph helpful guidance, particularly the last two sentences. It is unclear why it is being deleted.</p>
<p><b>IAS 16.12:</b> IAS 16 will require a components approach for depreciation. Under a components approach, each material component of a composite asset with different useful lives or different patterns of depreciation is accounted for separately for the purpose of depreciation and accounting for subsequent expenditure (including replacement and renewal). See IAS 16.12.</p>	<p>While we support a component approach to depreciation for major components of an asset, we are unsure that a component approach is practical in all circumstances. Prior to revision, IAS 16.12 had said that a component approach is appropriate “in certain circumstances”, citing the frame and engines of an aircraft as the only example. The revised IAS 16.12 requires a component approach in all circumstances, again with only the aircraft example cited. We disagree with this change. The components approach should only be required where it is useful because it provides qualitatively better information, that is, the difference would be material.</p> <p>IAS 16.7 refers to recognising “an item of property, plant, and equipment”. IAS 16.12 says that an entity allocates the amount initially recognised to its component parts. At a minimum, we believe that IAS 16.12 should be bold type because it seems to require something different than IAS 16.7 (components are not items but rather parts of items). We also ask the Board to consider whether the two paragraphs are consistent.</p>

**IAS 16.20A.** The acquisition cost of property, plant, and equipment should include the amount of an IAS 37 provision for the estimated cost of dismantling and removing the asset and restoring the site, including both provisions recognised when the asset is acquired and incremental provisions recognised while the asset is used.

We concur with the proposed treatment at acquisition date. However, after initial acquisition, we believe that many incremental provisions resulting from use of the asset should be a current period cost, not added to the cost of the asset. Incremental provisions often do not increase the service potential of the asset beyond that existing immediately before the expenditure was made. In such cases, the provisions are operating expenses that have no impact on the operating benefits embodied in the asset. On the other hand, in some cases, an incremental provision does relate to an increase in the future benefits from the asset, and capitalisation of the cost is justified. The Standard should clarify those cases in which the cost should be charged to expense and those in which it should be capitalised.

IAS 16.20A says that the cost of an item of property, plant, and equipment under IAS 16.15 includes dismantlement and removal costs. That certainly is not obvious from reading IAS 16.15. We think that a subparagraph 16.15(c) should be added to say “dismantlement, removal, and site restoration costs – see paragraph 16.20A”.

We believe that IASB should address how a change in the discount rate or a change in the cash flows originally used to measure the provision for dismantlement and restoration should be treated subsequent to initial recognition.

**IAS 16.20A & 20B** Need for guidance on which dismantlement, removal, and restoration costs qualify for capitalisation.

The guidance in paragraphs 20A and 20B does not indicate which costs would qualify for capitalisation under this caption. It is unclear whether the capitalisable cost would include voluntary costs, constructive obligations, legal obligations, or all of those. The Standard should clarify that only constructive and legal obligations should qualify for capitalisation.

<p>Accounting for incidental revenue (and related expenses) during construction or development of an asset will depend on whether the incidental revenue is a necessary activity in bringing the asset to the location and working condition necessary for it to be capable of operating in the manner intended by management (including those to test whether the asset is functioning properly):</p>	
<p>☐ <b>IAS 16.15(b).</b> Net sales proceeds received during activities necessary to bring the asset to the location and working condition necessary for it to be capable of operating properly are deducted from the cost of the asset.</p>	<p>We agree. But please see our next comment on IAS 16.17B.</p>
<p>☐ <b>IAS 16.17B.</b> Revenue and related expenses should be separately recognised for operations that occur in connection with construction or development of an asset but that are not necessary to bring the asset to the location and working condition necessary for it to be capable of operating properly.</p>	<p>We agree. However, guidance is needed regarding which costs should be recognised as “related expenses”. Also, we think the examples in IAS 16.15(b) (samples produced during testing) and in IAS 16.17B (using a building site as a car park before construction commences) do not get at the heart of the difference between circumstances in those two paragraphs. We think the following examples would be more illustrative:</p> <p>a. Sale of output produced during a required gradual (phased in) increase in usage of the asset until usage has reached the normal operating capacity level intended by management.</p> <p>b. After an old residential building is acquired, substantial sums are spent to relocate or remove existing tenants before the building can be demolished and a new one constructed. Some rental income is received during this period. This was contemplated as part of the decision to acquire the old building.</p> <p>c. Sale of petroleum or natural gas produced during construction of a well. Such production cannot be avoided during the construction period (natural pressure forces the product to the surface).</p>
<p><b>IAS 16.17:</b> Regarding cost capitalisation, references to start-up costs, pre-operating costs, pre-production costs, and similar items will be removed from IAS 16.17, and more general principles will be provided.</p>	<p>We think the guidance in IAS 16.17(a)-(d) as revised is an improvement.</p>
<p><b>IAS 16.46:</b> Measurement of residual value will no longer be fixed at acquisition date. It should be reviewed at each balance sheet date using current prices for assets of a similar age and condition.</p>	<p><u>We disagree with the change. The IASB Framework states that depreciation is a method of allocation, not valuation. Changing the residual value every reporting period amounts to trying to provide for a valuation not allocation.</u></p>

<p><b>IAS 16.46:</b> A change in an asset’s estimated residual value (other than an impairment loss) is accounted for prospectively as an adjustment of future depreciation.</p>	<p>We agree.</p>
<p><b>IAS 16.21:</b> Exchanges of similar items of property, plant, and equipment will be recorded at fair value, and gain or loss will be recognised, unless the neither the fair value of the asset given up nor the fair value of the asset acquired can be measured reliably, in which case the cost of the acquired asset would be the carrying amount of the asset given up. Currently, gain or loss is not recognised under IAS 16.22.</p>	<p>While we agree in principle with this conclusion, we believe that it should be addressed in a broader revenue recognition project rather than as an improvement to IAS 16.</p>
<p><b>IAS 16.25:</b> Subsequent expenditure is added to the carrying amount of an asset only if the expenditure increases the asset’s future economic benefits above those reflected in its most recently assessed level of performance. Currently, IAS 16.23 refers to the originally assessed level of performance.</p>	<p>We agree.</p>
<p><b>IAS 16.23:</b> SIC 6 on costs of modifying software is to be withdrawn.</p>	<p>We agree.</p>
<p><b>IAS 16.49:</b> An entity should review an asset’s estimated useful life at each financial year end, rather than “periodically” as currently required by IAS 16.49.</p>	<p>We agree.</p>
<p><b>IAS 16.59:</b> Items of property, plant, and equipment that are idle or held for sale will continue to be depreciated and tested for impairment. IAS 36.9(f) will be amended to include ceasing to use the asset as a trigger for impairment review.</p>	<p>Please see our response to Question 3. Also, if depreciation is not suspended during the idle period, the Standard should clarify whether recognition of a change in depreciation pattern (change in estimate) is still permitted.</p>
<p><b>IAS 16.53A and 16.53B:</b> Any compensation received from a third party for an item of property, plant, or equipment that was impaired, lost, or given up is to be included in profit or loss for the period in which it is received, with appropriate disclosure.</p> <p>Additional disclosures:</p>	<p>We question whether the absolute prohibition on recognising third-party compensation until it is received is consistent either with IAS 37.53, which recognises third-party compensation when it is virtually certain or with the Framework, which defines an asset as having “probable” economic benefits.</p>
<p><input type="checkbox"/> <b>IAS 16.60(a):</b> Disclosure of all measurement bases adopted when more than one basis is used within a single class of depreciable assets.</p>	<p>The amendments to this paragraph require disclosure of when more than one measurement basis has been used for a class of property, plant and equipment. However, the use of different measurement bases for the same class of property, plant and equipment is specifically prohibited by paragraph 34.</p>
<p><input type="checkbox"/> <b>IAS 16.60:</b> Removal of the exemption from disclosing comparative information in the reconciliation in IAS 16.60(e).</p>	<p>We question whether adding a detailed reconciliation for the prior financial period provides significant relevant information.</p>

<p>❑ <b>IAS 16.64(d).</b> Methods and significant assumptions applied in estimating the assets' fair values.</p>	<p>We think IAS 16.64(d) and IAS 16.64(e) should be combined into a single item as they are similar disclosures.</p>
<p>❑ <b>IAS 16.64(e).</b> Extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques.</p>	<p>We think IAS 16.64(d) and IAS 16.64(e) should be combined into a single item as they are similar disclosures.</p>

**APPENDIX 7**  
**Comments of Deloitte Touche Tohmatsu on**  
**Proposed Improvements to**  
**International Accounting Standard IAS 17 (revised 1997)**  
**Leases**

**Question 1**

**Do you agree that when classifying a lease of land and buildings, the lease should be split into two elements—a lease of land and a lease of buildings? The land element is generally classified as an operating lease under paragraph 11 of IAS 17, Leases, and the buildings element is classified as an operating or finance lease by applying the conditions in paragraphs 3-10 of IAS 17.**

We agree in part and disagree in part. A lease of land should be eligible for finance lease classification, with the asset – the land use right – amortised over its economic life to the lessee. Therefore, we do not agree with leaving IAS 17.11 as it is. On a discounted present value basis, a land lease for a term of, say, 50 or 100 or several hundred years is likely to convey to the lessee a right that is equivalent to a substantial portion of the risks and rewards incident to ownership. When the lease payment for such a lease is paid in full up front, describing it as “prepaid rent” – which is what IAS 17.11 requires – is not informative to users of financial statements. The asset is a long-term land use right. Indeed, under any capital lease in which title to the asset does not transfer to the lessee, the lessee’s asset is a right to use the asset, not the asset itself, although accounting generally labels the asset as building, machine, equipment, vehicle, etc., rather than, more precisely, as the right to use such assets. Moreover, leaving IAS 17.11 unchanged seems inconsistent with the fair value accounting objective of other changes in IAS 17 and IAS 40. We favour splitting the land and building into two asset components. We are concerned that the approach proposed would discourage such split for those property developers and others who want to be able to revalue their investment property, because they can only do so if a split cannot be made.

**Question 2**

**Do you agree that when a lessor incurs initial direct costs in negotiating a lease, those costs should be capitalised and allocated over the lease term? Do you agree that only incremental costs that are directly attributable to the lease transaction should be capitalised in this way and that they should include those internal costs that are incremental and directly attributable?**

We agree with capitalising and allocating initial direct costs over the lease term. However, we do not believe that initial direct costs should include internal costs. We find this inconsistent with IAS 39.17, which prohibits including allocation of internal costs as transaction costs that are included in the cost of a financial asset. (Leases are financial instruments.) Further, we think the “except for” clause in the definition of initial direct costs in IAS 17.3 is confusing. We would delete this exception and, instead, in IAS 17.34 say that “Initial direct costs incurred by a manufacturer or dealer lessor shall be recognised as an expense in the income statement at the inception of the lease.”

<p><b>IAS 17, Leases</b></p> <p><b>IAS 17.11B:</b> When a single lease covers both land and buildings, the minimum lease payments at the inception of the lease (including any up-front payments) are allocated between the land and the buildings elements in proportion to their relative fair values. The land element is generally classified as an operating lease under paragraph 11 of IAS 17. The buildings element is classified as an operating or finance lease by applying the criteria of IAS 17. However, if the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases.</p>	<p><b>Deloitte Touche Tohmatsu View</b></p> <p>As elaborated on in our answer to question 2, a lease of land should be eligible for finance lease classification, with the asset – the land use right – amortised over its economic life to the lessee. Therefore, we do not agree with leaving IAS 17.11 as it is. Moreover, leaving it unchanged seems inconsistent with the fair value accounting objective of other changes in IAS 17 and IAS 40. We favour splitting the land and building into two asset components. We are concerned that the approach proposed would discourage such split for those property developers and others who want to be able to revalue their investment property.</p>
<p><b>IAS 40.4:</b> The definition of investment property in IAS 40 is being amended so that property rights held under an operating lease can qualify as investment property if the other conditions for investment property are met and the lessee’s policy is to account for investment property using the fair value model.</p>	<p>We agree with the result of this change. Please see our comment at IAS 40.</p>
<p><b>IAS 17.29A:</b> Initial direct costs incurred by lessors (other than manufacturer/dealer lessors) should be capitalised and amortised over the lease term. The alternative in IAS 17.33 to expense initial direct costs up front will be eliminated. The costs to be capitalised will be limited to costs that are incremental and directly attributable to the lease and may include both internal and external costs.</p>	<p>We agree.</p> <p>We think the “except for” clause in the definition of initial direct costs in IAS 17.3 is confusing. We would delete this exception and, instead, in IAS 17.34 say that “Initial direct costs incurred by a manufacturer or dealer lessor shall be recognised as an expense in the income statement at the inception of the lease.”</p> <p>Further, IAS 17 addresses the accounting for initial direct costs for a lessor in a finance lease (IAS 29A), for a lessor in an operating lease (IAS 17.44), and for a lessee in a finance lease (IAS 17.16). It does not address accounting for initial direct costs for a lessee in an operating lease. It should do so.</p>
<p><b>IAS 17.59A:</b> Effective date of “these amendments”</p>	<p>It is unclear whether “these amendments” are meant to be applied retrospectively to leases entered into before the effective date of the amendments or whether those leases would be grandfathered by retaining the transitional provisions in IAS 17.58, which encourage but do not require retrospective application.</p>

**APPENDIX 8**  
**Comments of Deloitte Touche Tohmatsu on**  
**Proposed Improvements to**  
**International Accounting Standard IAS 21 (revised 1993)**  
**The Effects of Changes in Foreign Exchange Rates**

**Question 1**

**Do you agree with the proposed definition of functional currency as “the currency of the primary economic environment in which the entity operates” and the guidance proposed in paragraphs 7-12 on how to determine what is an entity’s functional currency?**

We agree.

**Question 2**

**Do you agree that a reporting entity (whether a group or a stand-alone entity) should be permitted to present its financial statements in any currency (or currencies) that it chooses?**

We agree.

**Question 3**

**Do you agree that all entities should translate their financial statements into the presentation currency (or currencies) using the same method as is required for translating a foreign operation for inclusion in the reporting entity’s financial statements (see paragraphs 37 and 40)?**

We agree.

**Question 4**

**Do you agree that the allowed alternative to capitalise certain exchange differences in paragraph 21 of IAS 21 should be removed?**

We agree.

**Question 5**

**Do you agree that**

**(a) goodwill and**

**(b) fair value adjustments to assets and liabilities**

**that arise on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation and translated at the closing rate (see paragraph 45)?**

We do not agree. We think there is justification for both approaches, but not as free choice alternatives. We believe that the IASB should define the circumstances in which each is appropriate. When the closing rate is used, the reported goodwill amount changes each period, which we believe is only appropriate if the parent is hedging its net investment in the subsidiary.

We also believe that this issue should be addressed as part of the Business Combinations Phase 2 project, because it implies the use of “push-down” accounting.

<b>IAS 21, Changes in Foreign Exchange Rates</b>	<b>Deloitte Touche Tohmatsu View</b>
<p><b>IAS 21.1(a):</b> Foreign currency derivatives that are within the scope of IAS 39, Financial Instruments: Recognition and Measurement, will be removed from the scope of IAS 21. This would eliminate any potential inconsistency between the two standards.</p>	<p>We agree.</p>
<p><b>IAS 21.6-7:</b> IAS 21’s concept of “reporting currency” will be replaced by two concepts: functional currency (the currency in which the entity measures the items in the financial statements) and presentation currency (the currency in which the entity presents its financial statements). The term “functional currency” will be used in place of “measurement currency” (which is presently in SIC 19) to converge with US GAAP and common usage. Those two terms have essentially the same meaning.</p>	<p>We agree.</p>
<p><b>IAS 21.6:</b> Functional currency is “the currency of the primary economic environment in which the entity operates”. The guidance in SIC 19 on identifying the measurement (functional) currency will be incorporated into IAS 21.</p>	<p>We agree.</p>
<p><b>IAS 21.6:</b> Definitions – “translation” and “remeasurement”.</p>	<p>The exposure draft applies the term “translation” to mean both ‘remeasurement’ and “translation”. For this revised Standard to be understandable, we believe that the Board should differentiate between remeasurement (restating foreign currency transactions into the functional currency) and translation (restating financial statements into a presentation currency different from the functional currency).</p>
<p><b>IAS 21.6:</b> Definition of “functional currency”.</p>	<p>Can an “unofficial currency” be the functional currency? We are concerned that if an “unofficial currency” is treated as a functional currency, the reliability and comparability of financial statements may be diminished. We suggest that the term “currency” be defined to clarify whether this can occur.</p>
<p><b>IAS 21.7:</b> The measurement (functional) currency of each entity within a group is the currency of the country that drives that entity’s economics (usually the country it is incorporated in). It is not a free choice.</p>	<p>We agree.</p>

<p><b>IAS 21.7:</b> Elaboration on the definition of functional currency.</p>	<p>The determination of an entity's functional currency is a matter of facts and circumstances. However, if the Board believes that IAS 21 should emphasise certain indicators, we believe that emphasis should be placed on the currency in which transactions are settled rather than on the price indicator. We have noted several situations where sales prices are denominated in a foreign currency, but settlement is usually in the local currency. We believe that the settlement indicator is more relevant for determining the functional currency.</p>
<p><b>IAS 21.6:</b> There will be no distinction between "integral foreign operations" and "foreign entities". An entity that was previously classified as an integral foreign operation will have the same functional currency as the reporting entity.</p>	<p>We agree.</p>
<p><b>IAS 21.9:</b> IAS 21's indicators of what is an "integral foreign operation" as opposed to a "foreign entity" will be incorporated into the indicators of what is an entity's functional currency.</p>	<p>We agree.</p>
<p><b>IAS 21.18:</b> Definition of foreign currency transaction.</p>	<p>This paragraph should be moved into the definitions.</p>
<p><b>IAS 21.36:</b> A reporting entity (single company or group) may present its financial statements in any currency (or currencies) that it chooses, that is, a free choice of presentation currency will be allowed. The financial statements of any operation whose functional currency differs from the presentation currency used by the reporting entity would be translated as follows (assuming the functional currency is not hyperinflationary): assets, liabilities and equity items at closing rate; income and expense items at the rate on the transaction date; all resulting exchange differences recognised as a separate component of equity.</p> <p>The allowed alternative in IAS 21.21 to capitalise certain exchange differences will be eliminated. In most cases in which IAS 21.21 has allowed capitalisation, the asset is also restated in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies. In such cases, to also capitalise exchange differences results in double counting.</p>	<p>We agree.</p> <p>We agree.</p>

<p><b>IAS 21.45:</b> The choice in IAS 21.33 of methods for translating goodwill and fair value adjustments to assets and liabilities that arise on the acquisition of a foreign entity will be eliminated. Goodwill and fair value adjustments will be translated at the closing rate.</p>	<p>We think there is justification for both approaches, but not as free choice alternatives. We believe that the IASB should define the circumstances in which each is appropriate. When the closing rate is used, the reported goodwill amount changes each period, which we believe is only appropriate if the parent is hedging its net investment in the subsidiary.</p> <p>We also believe that this issue should be addressed as part of the Business Combinations Phase 2 project, because it implies the use of “push-down” accounting.</p>
<p><b>Hedging:</b> Any ineffectiveness that arises on a hedge of a net investment in a foreign entity should be reported in net profit or loss. This would be the same treatment as is required for other kinds of hedges under IAS 39. The conditions for using hedge accounting for a hedge of a net investment in a foreign entity will be the same as for other kinds of hedges under IAS 39. All of the material on hedging that is presently in IAS 21 will move to IAS 39</p>	<p>We agree.</p>
<p>Translation of comparative prior period amounts will be as follows:</p> <p><b>IAS 21.37:</b> (a) If the functional currency is not hyperinflationary, translate comparative assets and liabilities at the closing rate and translate comparative income and expense items at historical exchange rates at the time the income was earned and expenses incurred.</p> <p><b>IAS 21.40(a):</b> (b) If the functional currency is hyperinflationary and the presentation currency is also hyperinflationary, translate all balance sheet and income statement items at the current closing rate.</p> <p><b>IAS 21.40(b):</b> (c) If the functional currency is hyperinflationary and the presentation currency is not hyperinflationary, prior period comparative amounts remain as previously reported, that is, they are not updated for subsequent changes in price levels or exchange rates.</p>	<p>We agree.</p>
<p><b>IAS 21.24:</b> IAS 21 would be amended to take account of the situation recently experienced in Argentina, where a currency is suspended and this straddles a year end. At present the standard is silent on this issue. The revision states that where there is non-exchangeability of a currency at the year-end, the rate that should be used is the exchange rate at the date when exchangeability is first re-established.</p>	<p>We agree.</p>

<p><b>IAS 21, Old Paragraph 48:</b> Transitional provisions. The old paragraph 48 had said that on adopting IAS 21, the enterprise should classify separately and disclose the cumulative balance, at the beginning of the period, of exchange differences deferred and classified as equity in previous periods. There was not a requirement for retrospective restatement.</p>	<p>As a result of deleting paragraph 48, it is unclear what would be the accounting treatment if, as a result of the adoption of the revised Standard, an entity is required to change its functional currency. Would the entity have to apply the change retrospectively? Would it be considered a correction of an error? The revised standard should either include a transition paragraph similar to current IAS 21.48 or state that no specific transitional provision applies and, therefore, IAS 8 should be applied.</p> <p>In addition, the Summary of Main Changes should also highlight the deletion of the transitional provisions in IAS 21 (revised 1993) and discuss the applicability of such revisions.</p>
<p><b>IAS 21.51:</b> Most of the disclosures currently required by SIC 30, Reporting Currency - Translation from Measurement Currency to Presentation Currency, will be incorporated into IAS 21.</p> <p><b>IAS 21.55</b> Disclosures relating to “convenience translations”</p>	<p>We agree.</p> <p>We suggest revising the beginning of the paragraph 55 to avoid an entity presenting financial statements in accordance with IFRS and not applying paragraph 53: “When an entity displays supplementary financial statements or other supplementary financial information ...”</p>
<p><b>SIC 11:</b> SIC 11, Foreign Exchange – Capitalisation of Losses Resulting from Severe Currency Devaluations, will be withdrawn. SIC 19, Reporting Currency – Measurement and Presentation of Financial Statements under IAS 21 and IAS 29, and SIC 30, Reporting Currency – Translation from Measurement Currency to Presentation Currency, will be incorporated into IAS 21.</p>	<p>We agree.</p>

**APPENDIX 9**  
**Comments of Deloitte Touche Tohmatsu on**  
**Proposed Improvements to**  
**International Accounting Standard IAS 24 (reformatted 1994)**  
**Related Party Disclosures**

**Question 1**

**Do you agree that the Standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations (see paragraph 2)? 'Management' and 'compensation' would need to be defined, and measurement requirements for management compensation would need to be developed, if disclosure of these items were to be required. If commentators disagree with the Board's proposal, the Board would welcome suggestions on how to define 'management' and 'compensation'.**

We disagree with the exclusion in paragraph 2 because we do not believe it has a conceptual basis. Management personnel are related parties, and transactions with management are relevant for the same reasons as those set out in paragraphs 5 to 8 of the proposed Standard. The previous version of the Standard adequately defined key management personnel as "those persons having authority and responsibility for planning, directing and controlling the activities of the reporting enterprise, including directors and officers of companies and close members of the families of such individuals." It is not necessary to define compensation since all transactions with management, not just compensation, should be disclosed.

**Question 2**

**Do you agree that the Standard should not require disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or a wholly-owned subsidiary that are made available or published with consolidated financial statements for the group to which that entity belongs (see paragraph 3)?**

We agree.

<b>IAS 24, Related Party Disclosures</b>	<b>Deloitte Touche Tohmatsu View</b>
<b>IAS 24.6:</b> Elaboration on the potential effect of related party transactions on net profit or loss.	We agree. We suggest that the revised IAS 24 make clear that the Standard does not require remeasurement of the amounts of related party transactions to an arm's length amount. Consider adding some examples, such as an interest free loan.
<b>IAS 24.9:</b> Definition of significant influence.	We believe that IFRSs should have consistent definitions between the standards. The definition of "significant influence" in IAS 24 should be consistent with the definitions in IAS 28 and IAS 31. If the last sentence in the definition of significant influence in IAS 24.9 is relevant it should be included also in the definitions if the other standards that also address this issue. Otherwise we recommend deletion of this sentence from the definition in IAS 24.9.
<b>IAS 24.17:</b> Also remove the existing requirement to disclose the basis of pricing related party transactions and clarify that related party transactions should not be described as having been made on terms equivalent to those that would prevail in arm's length transactions only if such a statement can be substantiated.	We agree.
<b>IAS 24.9:</b> Definition of related parties will be expanded or clarified to include (a) parties with joint control over the reporting entity, (b) joint ventures in which the reporting entity is a joint venturer, (c) individuals who control the reporting entity, (d) post-employment benefit plans for the benefit of employees of the entity, or of any entity that is a related party of the entity, and (e) non-executive directors.	IAS 24.9 contains a list of seven types of related parties, but it does not set out an underlying principle of a related party. We believe that IAS 24 should set out the principle and then the seven examples (and perhaps others) are implementation guidance. We propose the principle be based on the following:  a. Economic dependence and  b. Ability to negotiate at other than arm's length
<b>IAS 24.9:</b> Further guidance is provided regarding the definition of close family members (includes domestic partners and children or dependents of the individual or domestic partner).	We agree.
The exemption in old IAS 24.4(d) for state-controlled enterprises will be removed. Thus a state-controlled enterprise will have to disclose transactions with other state-controlled enterprises.	We agree.
<b>IAS 24.14(a):</b> Amend old IAS 24.23 to require disclosure of the amounts of transactions and outstanding balances with related parties, not just the proportions of such transactions and balances.	We agree.

<p><b>IAS 24.14(a),(b),(c):</b> Additional disclosures about related party balances: terms and conditions of outstanding balances, security, how repayment will be made, details of guarantees given or received, and amounts of any bad debts provisions.</p>	<p>We agree.</p>
<p><b>IAS 24.2:</b> Disclosures relating to management compensation and expense allowances paid in the ordinary course of business will not be added to IAS 24.</p>	<p>We think investors in public companies should be informed about the amounts and terms and conditions of management compensation and expense allowances paid in the ordinary course of business. However, we believe that this is a corporate governance and regulatory issue, not generally an accounting issue. Disclosures in financial statements should be limited to information necessary for a fair presentation of financial position, financial performance, and cash flows (that is, represent faithfully the effects of transactions and other events in accordance with the definitions and recognition criteria in the Framework).</p>

**APPENDIX 10**  
**Comments of Deloitte Touche Tohmatsu on**  
**Proposed Improvements to**  
**International Accounting Standard IAS 27 (revised 2000)**  
**Consolidated Financial Statements and Accounting for Investments in Subsidiaries**

**Question 1**

**Do you agree that a parent need not prepare consolidated financial statements if all the criteria in paragraph 8 are met?**

We agree.

**Question 2**

**Do you agree that minority interests should be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity (see paragraph 26)?**

We think this decision has ramifications that should be addressed or, alternatively, this decision should be deferred to Phase 2 of the Business Combinations project. If minority interest is part of the reporting entity's equity, then it would seem to follow that net profit or loss should be measured before deducting minority's share of net profit or loss? Net profit or loss minus minority interest would then be called "Net profit or loss attributable to parent's shareholders." Currently, IAS 1.76 requires that minority interest be deducted in measuring net profit or loss.

Also, reporting minority interest in equity suggests that gain or loss should not be recognised on deemed disposals and deemed acquisitions (where the investor's ownership changes as a result of the investee's issuances or repurchases of its own shares). Currently, we believe that companies report gains and losses in these cases under IAS.

**Question 3**

**Do you agree that investments in subsidiaries, jointly controlled entities, and associates that are consolidated, proportionately consolidated or accounted for under the equity method in the consolidated financial statements should be either carried at cost or accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in the investor's separate financial statements (paragraph 29)? Do you agree that if investments in subsidiaries, jointly controlled entities, and associates are accounted for in accordance with IAS 39 in the consolidated financial statements, then such investments should be accounted for in the same way in the investor's separate financial statements (paragraph 30)?**

We agree.

<b>IAS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries</b>	<b>Deloitte Touche Tohmatsu View</b>
<b>IAS 27.8:</b> IAS 27.8 currently permits wholly owned (and virtually wholly-owned) subsidiaries to be excluded from consolidation. The exemption would be tightened by requiring the following conditions:	
<input type="checkbox"/> the wholly-owned subsidiary's equity and debt securities are not publicly traded;	We agree.
<input type="checkbox"/> it is not in the process of issuing equity or debt securities in public securities markets;	We agree.
<input type="checkbox"/> the immediate parent or ultimate parent publishes consolidated financial statements that comply with IFRS; and	We agree.
<input type="checkbox"/> if the subsidiary is not wholly owned, the parent obtains the approval of the owners of the minority interest; and	We agree.

<p><b>IAS 27.9:</b> The non-consolidated financial statements permitted by IAS 27.8 are “the only financial statements prepared for the entity”.</p>	<p>In some jurisdictions, a wholly owned (or virtually wholly owned) subsidiary that itself has subsidiaries is required to prepare consolidated financial statements by law or regulation. If the intent of IAS 27.9 is to prohibit such an entity from also publishing non-consolidated statements (by invoking the IAS 27.8 exemption), we agree. It would be confusing if two different sets of financial statements are published. We believe that this should be elaborated on in IAS 27.9.</p>
<p><b>SIC 12:</b> Unlike SIC 33, SIC 12, Consolidation – Special Purpose Entities, will not be incorporated into IAS 27. The Board will reconsider consolidation of special purpose entities in a future project.</p>	<p>We do not agree. We believe it is critical that the objective of SIC 12 be maintained. We strongly encourage the Board to integrate SIC 12 into IAS 27 as part of the Improvements Project, so that it has the clear status of a Standard. We believe that the Board should give highest priority to reviewing and, if appropriate, revising SIC 12 by immediately taking it on as a separate agenda project.</p>
<p><b>IAS 27.13(a):</b> Temporary investment: IAS 27.13(a) excludes a subsidiary from consolidation when control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future. “In the near future” will be replaced by “within 12 months”.</p>	<p>We agree, and we would add a requirement that the parent be actively seeking a buyer.</p> <p>This paragraph should be expanded to provide guidance for the situation in which a subsidiary that was previously excluded from consolidation on grounds of temporary investment is not, in fact, disposed of within 12 months. Is this a correction of an error or a change in circumstances? Or would an assessment have to be made based on criteria in IAS 8?</p>
<p><b>IAS 27.21:</b> All entities within the group will be required to use uniform accounting policies for like transactions and other events in similar circumstances. The practicability exemption will be removed.</p>	<p>We agree.</p>

<p><b>IAS 27.26:</b> Minority interests should be presented in equity, separately from parent shareholders' equity. However, current requirements for accounting recognition and measurement of minority interest should not be changed in the improvements project. The consequences of equity classification (for example, step acquisitions and dilution gains and losses) are to be discussed in phase 2 of the Business Combinations project.</p>	<p>We think this decision has ramifications that should be addressed or, alternatively, this decision should be deferred to Phase 2 of the Business Combinations project. If minority interest is part of the reporting entity's equity, then it would seem to follow that net profit or loss should be measured before deducting minority's share of net profit or loss. Net profit or loss minus minority interest would then be called "Net profit or loss attributable to parent's shareholders." Currently IAS 1.76 requires that minority interest be deducted in measuring net profit or loss.</p> <p>Also, reporting minority interest in equity suggests that gain or loss should not be recognised on deemed disposals and deemed acquisitions (where the investor's ownership changes as a result of the investee's issuances or repurchases of its own shares). Currently, we believe that companies report gains and losses in these cases under IAS.</p>
<p><b>IAS 27.32:</b> Disclose the fact that a subsidiary has not been consolidated because control is temporary, along with summarised financial information for all unconsolidated subsidiaries.</p>	<p>We agree. But we are concerned that no disclosure is required about investees that otherwise would be subsidiaries except that the investee is in legal reorganisation or bankruptcy or operates under severe long-term funds transfer restrictions. See next comment on IAS 27.32(f)</p>
<p><b>IAS 27.32(f):</b> Disclose the nature and extent of restrictions on a subsidiary's ability to transfer funds to its parent.</p>	<p>We agree with this disclosure but it appears not to apply to any investees excluded from consolidation under IAS 27.12A because such investees are, by definition, not subsidiaries.</p>
<p><b>IAS 27.33:</b> If a parent is not required to present consolidated statements because of the exemption in IAS 27.8, the entity should disclose:</p> <p><input type="checkbox"/> <b>IAS 27.33(a):</b> the reason for not publishing consolidated financial statements; and</p>	<p style="background-color: #cccccc;">We agree, but we would add a requirement for the wholly owned (or virtually wholly owned) subsidiary that is not publishing consolidated financial statements to disclose the names and places of incorporation of its significant subsidiaries.</p>
<p><input type="checkbox"/> <b>IAS 27.33(b):</b> the name of the parent that publishes consolidated financial statements that comply with IFRS.</p>	<p>We agree.</p>
<p><input type="checkbox"/> <b>IAS 27.33(c):</b> Description of the method used to account for investments in subsidiaries, joint ventures, and associates</p>	<p>We agree.</p>
<p><input type="checkbox"/> <b>IAS 27.33:</b> These same disclosures above would apply to all investors' separate financial statements</p>	<p>We agree, but please see our earlier comment.</p>

<b>IAS 27, IAS 28, and IAS 31: Investor’s Separate Financial Statements:</b>	
<b>IAS 27.29:</b> Investments in subsidiaries, associates, and jointly controlled entities that are consolidated, proportionately consolidated, or accounted for under the equity method in the consolidated financial statements must either be carried at cost or be accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in the investor’s separate financial statements.	We agree.
<b>IAS 27.30:</b> Investments in subsidiaries, associates, and jointly controlled entities that are accounted for in accordance with IAS 39 in the consolidated financial statements must be accounted for in the same way in the investor’s separate financial statements.	We agree.
<b>IAS 27.33:</b> The investor’s separate financial statements should disclose:  <input type="checkbox"/> reasons why separate statements are prepared;	
<input type="checkbox"/> the existence of consolidated, proportionately consolidated, or equity method financial statements and the name of the immediate or ultimate parent; and	We are concerned that this will become “boilerplate” disclosure to the effect that “these statements are required by statute”.
<input type="checkbox"/> a description of the method used to account for investments in subsidiaries, associates, and jointly controlled entities.	We agree.

**APPENDIX 11**  
**Comments of Deloitte Touche Tohmatsu on**  
**Proposed Improvements to**  
**International Accounting Standard IAS 28 (revised 2000)**  
**Accounting for Investments in Associates**

**Question 1**

**Do you agree that IAS 28 and IAS 31, Financial Reporting of Interests in Joint Ventures, should not apply to investments that otherwise would be associates or joint ventures held by venture capital organisations, mutual funds, unit trusts, and similar entities if these investments are measured at fair value in accordance with IAS 39, Financial Instruments: Recognition and Measurement, when such measurement is well-established practice in those industries (see paragraph 1)?**

The term venture capital organisation is not defined, and we are concerned that using that term in IAS 28.1 might result in selective use of fair valuation for investments in associates. We believe that IAS 28 (and IAS 31) should refer instead to the more encompassing term “investment company” and define it as follows:

An investment company is an entity that:

- a. holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, or trading in securities;
- b. is engaged or proposes to engage in the business of issuing face-amount certificates of the instalment type, or has been engaged in such business and has any such certificate outstanding; or
- c. owns or proposes to own a substantial portion of its total assets on an unconsolidated basis (exclusive of government securities and cash items) in the form of securities.

Further, we would add venture capital investments held by banks to the list of “venture capital organisations, mutual funds, unit trusts” to which these special provisions would apply.

**Question 2**

**Do you agree that the amount to be reduced to nil when an associate incurs losses should include not only investments in the equity of the associate but also other interests such as long-term receivables (paragraph 22)?**

We do not agree. Investments in preferred shares and long-term receivables and loans should be separately evaluated for impairment. Only residual equity investments should be subject to the equity method of accounting. Further, we do not favour ever measuring the asset investment in an associate below zero. Instead we favour recognising a provision under IAS 37.

Also, we note that the Board does not propose to revise IAS 31 to include loans and advances as part of an investment in a joint venture that is accounted for by the equity method. The Board’s intention in this regard is not clear. If an entity adopts the proportional consolidation alternative, the investment would not include preferred shares and long-term receivables and loans.

**IAS 28, Investments in Associates**

**IAS 28.1 (also IAS 31.1):** Investments that would otherwise be associates or joint ventures held by venture capital organisations, mutual funds, unit trusts, and similar entities that are measured at fair value in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in accordance with well-established practice in those industries, will be excluded from the scope of IAS 28.

**Deloitte Touche Tohmatsu View**

The term venture capital organisation is not defined, and we are concerned that using that term in IAS 28.1 might result in selective use of fair valuation for investments in associates. We believe that IAS 28 (and IAS 31) should refer instead to the more encompassing term “investment company” and define it as follows:

An investment company is an entity that:

- a. holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, or trading in securities;
- b. is engaged or proposes to engage in the business of issuing face-amount certificates of the instalment type, or has been engaged in such business and has any such certificate outstanding; or
- c. owns or proposes to own a substantial portion of its total assets on an unconsolidated basis (exclusive of government securities and cash items) in the form of securities. Further, we would add venture capital investments held by banks to the list of “venture capital organisations, mutual funds, unit trusts” to which these special provisions would apply.

<p><b>IAS 28.3:</b> Change “results of operations” to “profit or loss”.</p>	<p>The definition of equity method in IAS 28.3 had said “the income statement reflects the investor’s share of the results of operations of the investee.” This had been interpreted in practice as permitting either a single line-item on the investor’s income statement reflecting the investor’s share of the investee’s net profit or loss or – at least – two line items on the income statement reflecting (1) the investor’s share of the investee’s pre-tax profit or loss and (2) the investor’s share of the investee’s income tax expense included as income tax expense in the investee’s income statement. The latter presentation is sort of a hybrid between one-line consolidation and proportionate consolidation and is commonly used in applying IAS 28. One-line presentation is also commonly used.</p> <p>IAS 28.3 is being changed from “results of operations” to “profit or loss” which presumably is net profit or loss. Further IAS 28.6 similar is added to refer to the investor’s share of profit or loss. While IASB did not identify this as a change, we believe it will have a large effect on reporting practice. We would encourage IASB to clarify whether “profit or loss” means net income and whether it is intended to require a single line item in the income statement. Because presenting equity method income on a pre-tax or after-tax basis can have a significant effect on performance ratios, we believe that it is important for the Board to clarify this matter.</p>
<p><b>IAS 28.5A:</b> Add additional guidance and disclosures for when it is appropriate to overcome the presumption that an investor has significant influence if it holds 20% or more of the voting power. Examples: investee is in legal reorganisation or bankruptcy or operates under severe long-term restrictions on its ability to transfer funds to the investor.</p>	<p>We agree.</p>
<p><b>IAS 28.8(a):</b> IAS 28.8(a) excludes an associate from the equity method when significant influence is intended to be temporary because the investment was acquired and held exclusively with a view to its subsequent disposal in the near future. “In the near future” will be replaced by “within 12 months”.</p>	<p>We agree, and we would add a requirement that the investor be actively seeking a buyer.</p>

<p><b>IAS 28.5B:</b> Old IAS 28.8(b) excluded an associate from the equity method when “it operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor”. A similar exception was included in IAS 27.13(b) and IAS 31.35(b). Those exemptions will be removed, and IAS 27, IAS 28, and IAS 31 will all be revised to indicate that severe long-term restrictions on the ability to transfer funds may preclude control, significant influence, or joint control.</p>	<p>We do not see this as a substantive change. If there are restrictions on the ability to transfer funds are severe and long-term, this impairs the investor’s ability to exercise significant influence or joint control.</p>
<p><b>IAS 28.22-22B:</b> An investor’s share of losses of an associate should be recognised only to the extent of the investment in the associate.</p>	<p>We agree. We do not favour ever measuring the asset investment in an associate below zero. Instead we favour recognising a provision under IAS 37 for guarantees and other commitments.</p>
<p><b>IAS 28.22:</b> IAS 28 will be amended to clarify that an investment in an associate can include preferred shares and long-term receivables and loans. This affects the base to be reduced when an associate incurs losses.</p>	<p>We do not agree. Investments in preferred shares and long-term receivables and loans should be separately evaluated for impairment. Only residual equity investments should be subject to the equity method of accounting. Further, we do not favour ever measuring the asset investment in an associate below zero. Instead we favour recognising a provision under IAS 37.</p> <p>Also, we note that the Board does not propose to revise IAS 31 to include loans and advances as part of an investment in a joint venture that is accounted for by the equity method. The Board’s intention in this regard is not clear. If an entity adopts the proportional consolidation alternative, the investment would not include preferred shares and long-term receivables and loans.</p>
<p><b>SIC 20:</b> SIC 20, Equity Accounting Method – Recognition of Losses, will be rescinded.</p>	<p>We agree.</p>
<p><b>IAS 28.16B and IAS 28.5A:</b> SIC 3, Elimination of Unrealised Profit and Losses on Transactions with Associates, and SIC 33, Potential Voting Rights, will be incorporated into IAS 28.</p>	<p>We agree. However, we favour inclusion in the proposed Standard of the useful guidance from SIC 33, particularly SIC 33.5.</p>
<p><b>IAS 28.8A:</b> All references to consolidated financial statements would be removed from IAS 28, to make it clear that when accounting for associates the equity method should be used, except for in the individual financial statements of the investor where the proposed amendments to IAS 27 will apply (that is, cost or IAS 39).</p>	<p>We agree. We view the equity method as a form of consolidated financial statements.</p>
<p><b>IAS 28.5A:</b> SIC 33, Potential Voting Rights, will be incorporated into IAS 28.</p>	<p>We agree.</p>

<p><b>IAS 28.18:</b> The date of the financial statements of an equity method associate used in applying the equity method must not be more than three months earlier than the financial statements of the investor.</p>	<p>We agree.</p>
<p><b>IAS 28.20:</b> The investor and equity method associates must use uniform accounting policies for like transactions and events in similar circumstances.</p>	<p>We agree. (It is unclear why the uniform accounting period requirement is black letter but the uniform accounting policies requirement is not.)</p>
<p><b>IAS 28.27-28B:</b> Additional disclosures will be required, including:</p> <ul style="list-style-type: none"> <li>a. fair values of investments in associates for which there are published price quotations;</li> <li>b. summarised financial information of associates;</li> <li>c. reasons a departure from the 20% presumption of significant influence;</li> <li>d. differences in reporting dates;</li> <li>e. restrictions on an associate’s ability to transfer funds;</li> <li>f. unrecognised losses of an associate; the investor’s contingent liabilities with respect to the associate;</li> <li>g. changes in an associate’s equity that are recognised directly in equity;</li> <li>h. contingent liabilities relating to the associate.</li> </ul>	<p>We support the proposed additional disclosures.</p>
<p><b>IAS 28.27(b):</b> This paragraph requires disclosure of “summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues, and profit or loss.”</p>	<p>While we support disclosure of investee financial data, the proposed requirement is unclear. We believe that “summarised” means fewer line items than in the associates’ own financial statements, for instance, total assets, total liabilities, total revenues, and net profit or loss. But then what does “aggregated” mean? If it means adding up the summarised totals (assets, liabilities, etc.) for all associates, we do not think this aggregated information will be meaningful. We favour separate disclosure of the summarised information separately for each significant associate. Another possibility is to aggregate for all associates that operate within a given business or geographical segment.</p>
<p><b>IAS 28.28:</b> Line item disclosures on the face of the balance sheet.</p>	<p>We believe this should be incorporated into the revision to IAS 1.</p>

**APPENDIX 12**  
**Comments of Deloitte Touche Tohmatsu on**  
**Proposed Improvements to**  
**International Accounting Standard IAS 33**  
**Earnings Per Share**

**Question 1**

**Do you agree that contracts that may be settled either in ordinary shares or in cash, at the issuer's option, should be included as potential ordinary shares in the calculation of diluted earnings per share based on a rebuttable presumption that the contracts will be settled in shares?**

While we concur, we note the inconsistency of this rebuttable presumption with the requirement in IAS 32 to classify an instrument as equity when the issuer has the right to settle in cash or shares.

**Question 2**

**Do you agree with the following approach to the year-to-date calculation of diluted earnings per share (as illustrated in Appendix B, examples 7 and 12)?**

- **The number of potential ordinary shares is a year-to-date weighted average of the number of potential ordinary shares included in each interim diluted earnings per share calculation, rather than a year-to-date weighted average of the number of potential ordinary shares weighted for the period they were outstanding (i.e., without regard for the diluted earnings per share information reported during the interim periods).**
- **The number of potential ordinary shares is computed using the average market price during the interim periods reported upon, rather than using the average market price during the year-to-date period.**
- **Contingently issuable shares are weighted for the interim periods in which they were included in the computation of diluted earnings per share, rather than being included in the computation of diluted earnings per share (if the conditions are satisfied) from the beginning of the year-to-date reporting period (or from the date of the contingent share agreement, if later).**

We do not agree with this approach. IAS 34.28 sets out a basic principle of interim reporting under IAS: "Measurements for interim reporting purposes should be made on a year-to-date basis." We believe that the foregoing approach illustrated in Examples 7 and 12 is not consistent with the year-to-date measurement principle in IAS 34.18.

<p><b>IAS 33, Earnings Per Share</b>  <b>IAS 33.4:</b> Terminology: “or an increase in loss per share” can be eliminated.</p>	<p><b>Deloitte Touche Tohmatsu View</b>  We believe that the term “earnings” encompasses the notion of either profit or loss, as highlighted in the calculation of basic earnings per share and throughout the revised IAS 33. Therefore, when defining “dilution” in paragraph 4, it is unnecessary to add the phrase “or an increase in loss per share” following the term “reduction in earnings per share”. We recommend deletion of the phrase “or an increase in loss per share” from the definition.</p> <p>In addition throughout the document there is a reference to profit or loss as the component of earnings. We believe that it would create less confusion to define earnings in the definitions paragraph and then to eliminate the repeated references to profit or loss in the remainder of the document.</p>
<p><b>IAS 33.8:</b> EPS for continuing and discontinuing operations.</p>	<p>We believe that the notion of a dual numerator is relevant only when discontinued operations exist. We suggest deleting the dual numerator notion and instead focus the discussion on what would be the presentation if discontinued operations existed.</p>
<p><b>IAS 33.10:</b> EPS disclosure and tests of anti-dilution based on profit or loss from continuing operations.</p>	<p>“Profit or loss from continuing operations” is not defined anywhere in IAS. The Standard should clarify that it is net profit or loss, adjusted for the post-tax profit or losses of discontinuing operations disclosed in terms of IAS 35.27(f) and the amount disclosed in terms of IAS 35.31(a).</p>
<p><b>IAS 33.14:</b> If an entity purchases (for cancellation) its own preference shares for more than their carrying amount, the excess (premium) should be treated as a preferred dividend in calculating basic EPS (deducted from the numerator of the EPS computation).</p>	<p>We agree. Guidance is also needed on the purchase of preference shares for less than their carrying amount.</p>
<p><b>IAS 33.58:</b> Basic and diluted EPS must be presented for (a) profit or loss from continuing operations and (b) net profit or loss, on the face of the income statement for each class of ordinary shares, for each period presented.</p>	<p>We think that basic and diluted net profit or loss per share, for each class of ordinary shares, for each period presented, is sufficient. We would not prohibit disclosure of additional per share measures of performance, but we would not require them either.</p>

<p><b>IAS 33.36:</b> Consistency of definitions.</p>	<p>The definitions of terms should be consistent throughout IASB Standards. The definition of “fair value” in paragraph 36 is different from the definition in other standards such as IAS 39 or IAS 24. We would recommend using a renamed term and changing the appropriate references throughout the revised Standard to enhance consistency of terminology among the Standards.</p>
<p><b>IAS 33.37:</b> Potential ordinary shares are dilutive only when their conversion to ordinary shares would decrease EPS from continuing operations (IAS 33 currently uses net income as the benchmark).</p>	<p>This change is consistent with the previous change. Please see our comments on it.</p>
<p><b>IAS 33.51:</b> For contracts that may be settled in cash or shares, SIC 24 now requires that diluted EPS must assume that shares will always be issued. In Canada, UK, and US, those shares are excluded if experience or stated policy provide evidence that the contract will be settled in cash. IAS 33 will be amended to include a rebuttable presumption that the contract will be settled in shares, and SIC 24 will be withdrawn.</p>	<p>While we concur, we note the inconsistency of this rebuttable presumption with the requirement in IAS 32 to classify an instrument as equity when the issuer has the right to settle in cash or shares.</p>
<p><b>IAS 33 A1</b></p>	<p>The Standard should define and discuss “rights issue” if an example is to be included. The definition of rights issue may appear obvious in certain countries; however, many users and future users of IFRSs may have no background in this issue. Therefore, we suggest adding a definition or discussion of rights issues in the Standard. Also the verb in the first sentence of A1 should be “does”.</p>

**APPENDIX 13**  
**Comments of Deloitte Touche Tohmatsu on**  
**Proposed Improvements to**  
**International Accounting Standard IAS 40**  
**Investment Property**

**Question 1**

**Do you agree that the definition of investment property should be changed to permit the inclusion of a property interest held under an operating lease provided that:**

- (a) the rest of the definition of investment property is met; and**
- (b) the lessee uses the fair value model set out in IAS 40, paragraphs 27-49?**

We agree with the result of this change, which is to permit use of the fair value model for property interests acquired by a lease. However, we do not think the best way to address the problem created by the existing IAS 17.11 is a “quick fix” of IAS 17 through an addition to the scope of IAS 40. We think the Board can address IAS 17.11 directly as part of the Improvements Project. As noted in our reply to the proposals for improvement to IAS 17, we believe that, as a matter of principle, a lease of land should be eligible for finance lease classification, with the asset amortised over its economic life to the lessee. We think there is important information content in splitting the land and building into two asset components. We are concerned that the approach proposed would discourage such split for those property developers and others who want to be able to revalue their investment property.

**Question 2**

**Do you agree that a lessee that classifies a property interest held under an operating lease as investment property should account for the lease as if it were a finance lease?**

We agree. But please see our answer to Question 1.

**Question 3**

**Do you agree that the Board should not eliminate the choice between the cost model and the fair value model in the Improvements project, but should keep the matter under review with a view to reconsidering the option to use the cost model in due course?**

We agree.

<b>IAS 40, Investment Property</b>	<b>Deloitte Touche Tohmatsu View</b>
<p><b>IAS 40.4:</b> The definition of investment property will be amended to permit a property interest held by a lessee under an operating lease to qualify as investment property provided that:</p> <ul style="list-style-type: none"> <li>(a) the rest of the definition of investment property is met, and</li> <li>(b) the lessee uses the fair value model.</li> </ul>	<p>We agree with the result of this change, which is to permit use of the fair value model for property interests acquired by a lease. However, as noted in our reply to the proposals for improvement to IAS 17, we believe that a lease of land should be eligible for finance lease classification, with the asset (land use rights) amortised over its economic life to the lessee.</p>
<p><b>IAS 40.26A:</b> A lessee that classifies a property interest held under an operating lease as investment property must account for the lease as if it were a finance lease.</p>	<p>See our previous comment.</p>

**APPENDIX 14**  
**Comments of Deloitte Touche Tohmatsu on**  
**Proposed Consequential Amendments to**  
**International Accounting Standards and SIC Interpretations**

<b>IAS 31, Financial Reporting of Interests in Joint Ventures</b>	<b>Deloitte Touche Tohmatsu View</b>
<b>IAS 31.1 (also IAS 28.1):</b> Investments that would otherwise be associates or joint ventures held by venture capital organisations, mutual funds, unit trusts, and similar entities that are measured at fair value in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in accordance with well-established practice in those industries, will be excluded from the scope of IAS 28 and IAS 31.	Please see our comment on IAS 28.1 above.
<b>Scope</b>	See our response to IASB Question 1 for IAS 27.8.
<b>IAS 31.27:</b> Different reporting periods of the venturer and its jointly controlled entities.	The Standard should comment on different reporting periods for a venturer and its jointly controlled entities. See our comments on IAS 28.18.
<b>IAS 31.38:</b> In a joint venturer's separate financial statements, interests in a jointly controlled entity must be accounted for at cost or under IAS 39.	We agree.
<b>IAS 31.42:</b> An investor that does not have joint control must use IAS 39 or, if it has significant influence, the equity method, to account for investments in jointly ventures.	We agree.
<b>IAS 34 ApA 27:</b> Estimating LIFO inventories at interim dates.	As result of eliminating LIFO as an allowed method to value inventory, the guidance on how to apply LIFO to interim financial statements in IAS 34 also should be withdrawn.
<b>IAS 38.34A</b>	The intent of this change is unclear. The last sentence, in particular, would appear to be inconsistent with certain conclusions of the IASB in its current project on Business Combinations Phase I.
<b>IAS 38.54d)</b>	Why has item (d) – overhead costs – been deleted from costs directly attributable to internally generated intangible assets? This is inconsistent with other Standards dealing with self-manufactured or self-constructed assets such as inventories (IAS 2) and property, plant, and equipment (IAS 16).

<p><b>IAS 38.104B</b></p>	<p>We think that the general principle on which this paragraph is based is already addressed in IAS 18. It is unclear why it is added here as implementation guidance or, if it is added here, why not also in other standards relating to assets (such as IAS 2, IAS 16, IAS 27, IAS 28, IAS 31, IAS 39) that may be sold on a deferred payment basis.</p>
<p><b>Terminology:</b> Reporting currency</p>	<p>We suggest that IASB consider whether the term “reporting currency” should be changed to functional currency throughout IASB Standards and Interpretations.</p>