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Exposure Draft *Improvements to International Financial Reporting Standards*

Grant Thornton International is pleased to comment on the International Accounting Standards Board's (the Board) Exposure Draft *Improvements to International Financial Reporting Standards* (the ED). We have considered the ED as well as the accompanying draft Basis for Conclusions.

We agree with the substance of all of the proposed amendments. We also consider that the proposed amendments are all appropriate matters to be addressed in the annual improvements process.

We do however have detailed comments on a number of the proposals. These include alternative suggestions on some of the proposed transition and effective provisions.

Our comments on the specific proposed amendments are set out in the Appendix to this letter.

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If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of International Financial Reporting, Andrew Watchman (andrew.watchman@gtuk.com or telephone + 44 207 391 9510).

Yours sincerely,

Kenneth C. Sharp

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Comments on specific proposals

Issue 1: IFRS 1 *First-time Adoption of IFRSs* - Accounting policy changes in the year of adoption

Question 1 - do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
We support the proposed amendments.

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

Issue 2: IFRS 1 *First-time Adoption of IFRSs* - Revaluation basis as deemed cost

Question 1 - do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
We support the addition of the proposed new exemption (the amendment to D8).

We do not however agree with the Board's tentative conclusion on the comparative information when the 'deemed cost' is based on a revaluation after the date of transition. The Board's proposal has the effect that, in this situation, the first-time adopter:

- at the date of transition, either applies (say) IAS 16 retrospectively or uses an existing deemed cost exemption in IFRS 1
- then switches to the new deemed cost basis at the date of the triggering event during the period covered by the first IFRS financial statements.

The Board has considered and rejected a 'work back' approach. This would require an entity to establish a carrying amount on the date of transition to IFRSs using the revaluation amounts subsequently obtained on the date of measurement, adjusted to exclude any depreciation, amortisation or impairment between the date of transition to IFRSs and the date of that measurement. The Board argues that making such adjustments requires hindsight and the computed carrying amounts on the date of transition are neither the revalued assets' historical costs nor their fair values on that date.

Although we acknowledge these arguments, we nonetheless believe the rejected method is preferable. This is on the grounds that:

- we think the rejected method gives more comparable information during the periods covered by the first IFRS financial statements
- this method is less burdensome to the first-time adopter
- using an event-driven fair value before the date of transition also results in carrying amounts on the date of transition that are neither the revalued assets' historical costs nor their fair values on that date
- the use of hindsight required to apply the rejected method is no greater than establishing historical cost and cumulative depreciation in accordance with IAS 16 if (for example) the first-time adopter's accounting policy for depreciation is not consistent with IAS 16.

Question 2 - Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?
We are not sure what is intended by the statement in paragraph 39B that:

> 'if an entity had first applied IFRSs in an earlier period, the entity is permitted to apply the amendment to paragraph D8 in the first annual period after the amendment is effective as if it had been available in that earlier period'.

Is this intended to address the situation in which interim financial statements covering part of the first IFRS reporting period have been published without applying the D8 amendment? If so, this statement is not in our view necessary given the insertion of paragraph 27A.

Alternatively, perhaps the intention is that the event-driven fair value can be applied even after the first IFRS financial statements have been issued, provided the event occurred before the first IFRS reporting date. If so, we note that this seems to conflict with the stated scope of IFRS 1. The proposal would then give an option to apply an IFRS 1 exemption in financial statements that are not the entity's first IFRS financial statements.

Issue 3: IFRS 3 (2008) *Business Combinations* - Transition requirements for consequential amendments of IFRS 3 to IFRS 7, IAS 32 and IAS 39 for contingent consideration from a business combination that occurred before the effective date of the revised standard

Question 1 - do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
We support the proposed amendments. The amendments clarify what we have taken to be the Board's intentions regarding contingent consideration arrangements entered into before the application of IFRS 3(2008).

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

Issue 4: IFRS 3 (2008) *Business Combinations* - Measuring non-controlling interests

Question 1 - do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
We support the proposed amendments subject to the following comment.

The proposal affects the measurement of non-controlling interests (NCI) that are not currently entitled to a proportionate share of the acquiree's net assets. Examples of other NCI items could include: acquiree warrants, the equity component of convertible bonds and vested but unexercised share-based payment awards. The amendment will require that these other NCI items are measured at fair value or 'in accordance with applicable IFRSs'. However, other IFRSs do not appear to specify a measurement basis for these types of NCI items. For example, it is unclear how IAS 32's residual method for measuring the equity component of a convertible bond should be applied at the acquisition date (given that the bond in question would have been issued by the acquiree at an earlier date). Similarly, IFRS 2 does not specify how to measure a vested but unexercised share-based payment award.

Question 2 - Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?
We believe this amendment should be applied *prospectively* to business combinations that occur after the proposed effective date of 1 July 2010 or in the first annual period commencing after that date. We do not think entities that have applied IFRS 3 (2008) in an earlier period should be required to restate the measurement of items of NCI as a result of the amendment.

Issue 5: IFRS 3 (2008) *Business Combinations* - Un-replaced and voluntarily replaced share based payment awards

Question 1 - do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
We support the proposed amendments. These will clarify the required accounting that might otherwise lead to inconsistent application.

Question 2 - Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?
We prefer that this amendment applies *prospectively* to business combinations that occur after the proposed effective date of 1 July 2010 or in the first annual period commencing after that date. We are not convinced that entities that have applied IFRS 3 (2008) in an earlier period should be required to restate the accounting for un-replaced and voluntarily replaced acquiree share-based payments as a result of the amendment.

Issue 6: IFRS 5 *Noncurrent Assets Held for Sale and Discontinued Operations* – Application of IFRS 5 in loss of significant influence over an associate or a jointly controlled entity

Question 1 - do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
We agree with the proposed amendment.

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

Issue 7: IFRS 7 *Financial Instruments: Disclosures* – Financial Instruments: Disclosures – Disclosures about the nature and extent of risks arising from financial instruments

Question 1 - do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
We support the proposed amendments with the following exception.

We do not support the proposal to amend paragraph 36(a) of IFRS 7 such that it applies only to instruments whose carrying amount does not reflect the reporting entity's maximum exposure to credit risk. This is because it will not always be evident to users of financial statements which instruments give rise to an exposure to credit risk.

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

Issue 8: IAS 1 *Presentation of Financial Statements* – Clarification of statement of changes in equity

Question 1 - do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
We support the objective of the proposed amendment, which is to allow flexibility to disclose the detailed reconciliation of movements in different components of equity either in the notes or on the face of the statement of changes in equity. This is what we have taken to be the Board's intention based on the existing version of IAS 1, but clarification is welcome.

As a drafting matter, we note that adding the words 'or in the notes' to the first sentence of paragraph 106 of IAS 1 could be taken to mean that the entire statement of changes in equity may be presented in the notes (and not therefore as a primary statement). If this does not reflect the Board's intention then we suggest that these words should instead be added to paragraph 106(d).

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

Issue 9: IAS 8 *Accounting Policies Changes in Accounting Estimates and Errors* –Update for conceptual framework terminology changes

Question 1 - do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
We support the rationale behind the proposed amendments but we are unsure as to why these changes are being proposed before finalisation of the applicable chapter(s) of the revised conceptual framework. We suggest that these changes are implemented at the same time as the revised chapter(s) is (are) published.

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

Issue 10: IAS 27 *Consolidated and Separate Financial Statements* – impairment of investments in subsidiaries jointly controlled entities and associates in the separate financial statements of the investor

Question 1 - do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

Proposed amendment to paragraph 38(b) of IAS 27
We are not clear on the rationale for this proposed amendment. In our view IAS 27's existing option, 'in accordance with IAS 39', is wider than the proposed 'at fair value through profit or loss'. This proposal is not explained in the draft Basis for Conclusions. In the absence of any further justification, we are not convinced that the proposal is an improvement.

We also note that IFRS 9 *Financial Instruments* includes an option to designate investments in equity instruments (other than held for trading investments) as at fair value through other comprehensive income. We suggest that the Board should consider whether this measurement option should be available to parent entities in separate financial statements.

Proposed addition of paragraph 38D to IAS 27

We support the proposed amendment, which will clarify that IAS 39 (rather than IAS 36) should be used for impairment tests of investments in subsidiaries, jointly controlled entities and associates in separate financial statements. We believe that IAS 39 provides more specific guidance than IAS 36 on impairment testing of equity investments.

We note however that, in an investor's normal (ie not separate) financial statements, investments in associates (and equity accounted jointly controlled entities) are *assessed* for impairment based on IAS 39's guidance but tested in accordance with IAS 36 (IAS 28 paragraphs 31 to 34). We question whether it is appropriate and necessary to require different bases for impairment assessment and testing for the same investment in the investor's consolidated and separate financial statements.

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

We agree with the proposed transition provisions and effective date.

Issue 11: IAS 27 *Consolidated and Separate Financial Statements* – Transition requirements for consequential amendments of IAS 27 to IAS 21, IAS 28 and IAS 31

Question 1 - do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We support the proposed amendments. Given that the applicable amendments to IAS 27 are applied prospectively, it seems sensible to require the consequential changes to IASs 21, 28 and 31 also to be applied prospectively.

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

We note that the clarifications to the transition provisions for the consequential amendments to IAS 21, 28 and 31 (proposed new paragraphs 60C, 41D and 58C) are to be applied for annual periods beginning on or after 1 July 2010. Given that paragraphs 60C, 41D and 58C do not specify prospective application, retrospective application will be required.

In some (probably rare) cases, entities might have applied IAS 27's consequential changes to IAS 21, IAS 28 and IAS 31 retrospectively. In such cases, proposed new paragraphs 60C, 41D and 58C would seem to require the effects of retrospective application effects to be reversed. In other words, entities will be required to make a retrospective restatement to achieve prospective application. This seems complex and un-necessary. Accordingly we suggest that proposed new paragraphs 60C, 41D and 58C should themselves be applied prospectively.

Issue 12: IAS 28 *Investments in Associates* – Partial use of fair value for measurement of associates

Question 1 - do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
We support the proposed amendment. We believe that it will address situations in which a group holds portions of an investment in the same associate entity in different segments of its business, and one or more of those segments is a venture capital organisation, mutual fund or similar entity. We believe that it is appropriate in that situation that the portion held within the venture capital segment can be accounted for in accordance with IAS 39.

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

Issue 13: IAS 34 *Interim Financial Reporting* – Significant events and transactions

Question 1 - do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
We support the proposed amendments subject to the minor concerns noted below. We note that IAS 34 sets out a mainly principle-based approach to determination of the explanatory notes to be included in an interim report. We support the fact that the proposed amendments retain this principle-based approach, while improving the content and structure of the applicable guidance.

As a minor comment, we are not convinced that significant transfers between levels of the fair value hierarchy (paragraph 15B(k)) should be included in the list of the types of events or transactions for which disclosures are required.

Moreover, we question the usefulness and intent of the first sentence of proposed paragraph 15C ('Individual IFRSs provide guidance regarding disclosure requirements for many of the items listed in paragraph 15B'). This could be taken to imply, for example, that an entity that has a significant related party transaction in an interim period should then provide all the disclosures specified by IAS 24 in relation to annual financial statements. We doubt that this is what the Board intends.

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

Questions 3 & 4 - The Board proposes changes to IAS 34 *Interim Financial Reporting* to emphasise its disclosure principles. It also adds to the guidance to illustrate better how to apply these principles. The Board published an exposure draft *Fair Value Measurement* in May 2009. In that exposure draft, the Board proposes that all of the fair value measurement disclosures required in IFRS 7 *Financial Instruments: Disclosures* for annual financial statements should also be required for interim financial statements.

Do you agree that this proposed amendment is likely to lead to more useful information being made available to investors and other users of interim financial reports? If not, why? What would you propose instead and why?

The Board proposes changes to IAS 34 *Interim Financial Reporting*. Do you agree that amending IAS 34 to require particular disclosures to be made in interim financial statements is a more effective way of ensuring that users of interim financial statements are provided with useful information? If not, why? What approach would you propose instead and why?

As noted above we support the retention of a largely principle-based approach to determination of the footnote disclosures in condensed interim financial statements, while specifying some limited, minimum disclosures (as proposed). We consider that the minor changes proposed to the wording of the minimum disclosure paragraphs are appropriate subject to our comments under Question 1 above.

We do not however agree that all of the fair value measurement disclosures required in IFRS 7 *Financial Instruments: Disclosures* for annual financial statements should also be required in condensed interim financial statements.

Issue 14: Proposed amendment to IAS 40 *Investment Property*

Question 1 - do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We support the proposed amendments subject to the following minor drafting comments:

- In proposed paragraph 58A, in the parentheses in the second line 'are' should be 'is'
- In the draft Basis for Conclusions paragraph BC3 states that: 'continuing to measure the property using the measurement model previously selected provides the most relevant information'. However, if the investor has selected the cost model in accordance with IAS 40 and the property later meets IFRS 5's held-for-sale criteria then the asset will be re-measured to the lower of its previous carrying amount and fair value less costs to sell. We take this to be a drafting issue in BC3 rather than a failure to reflect the intended outcome in the proposed amendment itself.

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

We agree with the proposed transition provisions (prospective application by reference to the date of a decision to dispose of investment property) and effective date.

Question 5 - The Board proposes to amend IAS 40 Investment Property to remove the requirement to transfer investment property carried at fair value to inventory when it will be developed for sale, to add a requirement for investment property held for sale to be displayed as a separate category in the statement of financial position and to require disclosures consistent with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Do you agree that the proposed amendment should be included within Improvements to IFRSs or should a separate project be undertaken to address this issue? If you believe a separate project should be undertaken, please explain why.

We are comfortable that this amendment is suitable for inclusion in the Annual Improvements process. We see no need for a separate project to address this matter.

Issue 15: IFRIC 13 *Customer Loyalty Programmes* – Fair value of award credits

Question 1 - do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
We support the proposed amendments.

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