SAICA
THE SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS
develop.influence.lead.

4 September 2012

International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom
Email: CommentLetters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON THE EXPOSURE DRAFT ON *ANNUAL IMPROVEMENTS TO IFRSs 2010—2012 CYCLE: PROPOSED AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS*

In response to your request for comments on the exposure draft on *Annual Improvements to IFRSs 2010—2012 Cycle: Proposed Amendments to International Financial Reporting Standards*, attached is the comment letter prepared by Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, auditors, IFRS specialists and academics.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Financial Reporting

cc: Paul O'Flaherty (Chairman of the Accounting Practices Committee)

Integritas, 7 Zulberg Close, Bruma Lake, 2198 POSTAL ADDRESS PO Box 59875, Kengray, 2100, Johannesburg
TEL +27 11 621 6600 FAX +27 11 621 3321 CALL CENTRE 08610 SAICA (72422) EMAIL saica@saica.co.za WEB saica.co.za | accountancysa.org.za
Member of the International Federation of Accountants (IFAC), the Eastern Central and Southern African Federation of Accountants (ECSAFA) and Investors in People. Proudly South African.

SAICA SUBMISSION ON EXPOSURE DRAFT ON *ANNUAL IMPROVEMENTS TO IFRSs 2010—2012 CYCLE: PROPOSED AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS*

GENERAL COMMENTS

We are generally supportive of the proposed amendments to the eleven IFRSs. Our responses to the questions are set out under the specific comments section below.

SPECIFIC COMMENTS

IFRS 2 – *Share – based Payment*

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

We agree with all the proposed amendments to IFRS 2. These would be useful improvements which would address diversity and uncertainty in practice in these areas.

However, we have one recommended change that the Board should consider in the final drafting of the amendment. In terms of the proposed definition of a performance condition "*...a performance target is defined by reference to the entity's own operations (or activities) or the price (or value) of its equity instruments...*". We noted that in a group structure, some performance targets may be set by reference to the *price or value of another group entity's equity instruments*, such as the quoted share price of the parent entity. Alternatively, the performance target might be based on the performance of the group, rather than that of only the employer entity. We believe that the final wording of the amendment should clarify that reference to 'entity' would include other entities within the same group.

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

We do not agree with the proposed requirement to apply the proposed amendments retrospectively, since changes to the definition of vesting conditions could have an impact on the determination of the grant date fair value. This would be the case where conditions, treated previously as vesting conditions, would need to be treated as non-vesting conditions under the proposed amendment. It is considered that it would be impracticable to recalculate what the grant date fair value would have been without using hindsight, since the related inputs for these non-vesting conditions would not have been market-observable. Therefore, notwithstanding the impracticability provisions in IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*, we believe that prospective application from the first grant date on or after the effective date would be a more reasonable transitional provision.

SAICA SUBMISSION ON EXPOSURE DRAFT ON *ANNUAL IMPROVEMENTS TO IFRSs 2010—2012 CYCLE: PROPOSED AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS*

IFRS 3 – *Business Combinations*

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 do not agree with the proposed amendments relating to contingent consideration.

Firstly, the wording in paragraph 40 appears to imply that the proposed amendment would result in only contingent consideration that meets the definition of a financial instrument being addressed. What if a contingent consideration is not a financial instrument? For example, the amount might be settled by a non-financial item. We believe that other types of contingent consideration should also be addressed.

Secondly, the requirement to split the fair value changes of contingent consideration financial liabilities and recognise the 'own credit risk' portion in other comprehensive income is too onerous. We propose that IFRS 9 – *Financial Instruments*, scopes out contingent consideration that is within the scope of IFRS 3, and that IFRS 3 should simply require fair value measurement through profit or loss. We believe that this would be a simpler approach.

Question 2
Do you agree with the proposed transitional 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 the effective date of the proposed amendments to IFRS 3.

IFRS 8 – *Operating Segments*

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

While we do not necessarily disagree with the proposed amendments, there is a concern that the proposal for additional aggregation disclosure implies that users or the IASB do not believe that the aggregation requirements of IFRS 8, are being applied correctly. We therefore question whether this proposed additional disclosure will really provide useful information, or whether it is rather aimed at ensuring that IFRS 8 is applied properly. There is a concern that "boilerplate-type" disclosures will be provided, which will just add to the volume of disclosures without necessarily providing much benefit.

Question 2

Do you agree with the proposed transitional 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 transitional provisions and effective date of the proposed amendments to IFRS 8.

IFRS 13 – *Fair Value Measurement*

Question 1

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

We agree with and support the content of the proposed additional paragraph in the Basis for Conclusions to IFRS 13 because it addresses the uncertainty caused by the previous amendments to IAS 39 – *Financial Instruments: Recognition and Measurement,* and IFRS 9 regarding discounting of short-term receivables and payables. We therefore welcome the clarification.

However, while not disagreeing with the content, some believe that it would be better placed to include the guidance that is proposed in BC138A in IFRS 13 or in separate application or educational guidance, rather than in the Basis for Conclusions. This is because the Basis for Conclusions does not form part of the standard. In some jurisdictions, like the European Union, the Basis for Conclusions is not published.

IAS 1 – *Presentation of Financial Statements*

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 to IAS 1 as outlined in the exposure draft, however, a minority expressed concerns with certain aspects of the proposal.

The minority agree with the proposal that the refinancing under an existing loan facility would need to be with 'the same lender'. However, they have concerns over whether the principles of derecognition of financial liabilities are necessarily appropriate for distinguishing current/non-current liabilities as referred to in BC1 and BC2. Their concerns are two-fold:

Firstly, if a loan is rolled over at maturity, arguably there has been no modification or exchange. The original loan has been settled and a new loan has been granted. Accordingly, the repayment of the original loan should be accounted for as an extinguishment irrespective of whether the original loan and the new loan have the same or different terms.

Secondly, even if such a rollover were regarded as a modification they do not believe, whether derecognition is achieved or not, this is an appropriate basis for distinguishing current/non-current liabilities. They believe the focus should be on whether there will be an outflow of cash or other assets. Therefore, if there will be no outflow of cash or other assets within the next 12 months, but there would be derecognition, classifying such a loan as current is in their view inconsistent with the principles in paragraphs 65, 69, BC38G and BC38H of IAS 1. These paragraphs indicate that the current/non-current classification of liabilities is intended to provide information in assessing the liquidity and solvency of an entity, and classifying liabilities on the basis of the requirements to transfer cash or other assets reflects the liquidity and solvency position of an entity. They agree with the principle referred to above as set out in IAS 1, and believe that the discretion to avoid transferring cash or other assets in the case of a roll over or refinancing should determine the classification. Accordingly, they believe the proposals should rather provide clarity that this is the test and provide guidance on when this test is likely to be met. They therefore acknowledge that if the terms of the rollover would be very different from the current terms (and have yet to be specified by the lender), then it is unlikely that the borrower would have an unconditional right to avoid an outflow of cash or other assets on the original loan. However, if the rollover terms are very different from the current terms, but they have been agreed to before the reporting date, in certain circumstances it may be possible for the borrower to demonstrate that they do have such an unconditional right to avoid an outflow within the next 12 months.

Question 2

Do you agree with the proposed transitional 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 transitional provisions to IAS 1 and the proposed effective date.

IAS 7 – *Statement of Cash Flows*

Question 1

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

Whilst we agree in principle with the proposed amendments to IAS 7, we believe that the application of these proposals could be difficult to apply in practice given the complexity in calculating how much of the interest capitalised to different items has been paid. It may result in an arbitrary allocation of interest paid (in particular where the finance costs relate to general borrowings) between operating and investing activities.

It is also not clear from reading the proposed amendment whether or not an entity is required to separately disclose the interest paid from the other cash flows of the underlying capital asset or whether these can be aggregated into a single line item on the face of the statement of cash flows. For example, if an entity constructed an asset for CU110m which included interest capitalised (and paid) of CU10m. Can a single outflow of CU110m be shown under Investing Activities or should the CU10m be shown separately from the CU100m on the face of the statement of cash flows?

We know that the Board is aware that there are many other cash flow classification issues in practice, for example deferred and contingent considerations arising in a business combination, and therefore we encourage the Board to address these as well.

Question 2
Do you agree with the proposed transitional 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 transitional provisions to IAS 7 and the proposed effective date.

IAS 12 – *Income Taxes*

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 amendments to IAS 12 as outlined in the exposure draft.

Question 2
Do you agree with the proposed transitional 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 transitional provisions to IAS 12 and the proposed effective date.

IAS 16 - *Property, Plant and Equipment* and IAS 38 – *Intangible Assets*

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

We agree with the proposed amendment to IAS 16 and IAS 38 as outlined in the exposure draft.

Some of our commentators believe that the proposed example in IAS 16.35(a) should be deleted because it is confusing.

Question 2

Do you agree with the proposed transitional 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 transitional provisions to IAS 16 and IAS 38 and the proposed effective date.

IAS 24 – *Related Party Disclosures*

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 to IAS 24 as outlined in the exposure draft.

However, paragraph 18A of the proposed amendment requires disclosure of *"Amounts* ***recognised as an expense*** *by the entity …".*(emphasis added). In some instances the cost incurred may be capitalised as part of an asset. Therefore, we recommend replacing the words 'recognised as an expense' with the word 'incurred'.

Question 2

Do you agree with the proposed transitional 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 transitional provisions to IAS 24 and the proposed effective date.

IAS 36 – *Impairment of Assets*

Question 1

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

We agree with the proposed amendment to IAS 36 as outlined in the exposure draft.

However, we recommend that the Board delete the last sentence in paragraph 130 (f) that states "*An entity is not required to provide the disclosures required by IFRS 13"*. We believe this statement is superfluous since IFRS 13.6(c) already contains the exemption.

SAICA SUBMISSION ON EXPOSURE DRAFT ON *ANNUAL IMPROVEMENTS TO IFRSs 2010—2012 CYCLE: PROPOSED AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS*

Question 2

Do you agree with the proposed transitional 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 transitional provisions to IAS 36 and the proposed effective date.

 # 400462