THE SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS

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14 October 2011

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

Dear Sir/Madam

SAICA SUBMISSION ON EXPOSURE DRAFT ON *IMPROVEMENTS TO IFRSs*

In response to your request for comments on the International Accounting Standards Board (IASB's) exposure draft on *Improvements to IFRSs,* attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA). Please note that SAICA is not only a professional body, but also secretariat for the Accounting Practices Board (APB), the official standard-setting body in South Africa. The SAICA comment letter results from deliberations of the Accounting Practices Committee (APC), which is the technical advisory body to the APB.

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: Moses Kgosana (Chairman of the Accounting Practices Board)
Prof Alex Watson (Chairman of the Accounting Practices Committee)

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GENERAL COMMENTS

We are generally supportive of the Board's proposed amendments to the five International Financial Reporting Standards.

SPECIFIC COMMENTS

PROPOSED AMENDMENTS TO IFRS 1 – *FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS*

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 IFRS 1 relating to borrowing costs.

Whilst we welcome the Board's proposal to amend IFRS 1 to clarify the requirement that IFRS 1 could be required to be applied more than once, particularly in the circumstances outlined in BC1, there are concerns with how paragraph 2A may be applied. The main reason for this concern is that the proposed wording may result in more questions arising on the interpretation of the existing wording.

The concern relates to whether the entity's most recent previous annual financial statements contained an explicit and unreserved statement of compliance with IFRS. For example, Entity A did not include such a statement of compliance in its 2010 annual financial statements, but made reference to complying with legislation which required the entity to prepare financial statements in terms of IFRS. Alternatively, Entity A received an unqualified audit opinion for compliance with IFRS (it is unlikely that an auditor would issue a qualified audit opinion simply because the entity did not include a statement of compliance with IFRS). Would Entity A have to apply IFRS 1 when preparing its 2011 annual financial statements if those financial statements contain the statement of compliance with IFRS? Or would reference to compliance with legislation that required the use of IFRS or the reference to IFRS in the audit opinion as being the relevant reporting framework suffice as the *explicit and unreserved* statement of compliance with IFRS? While IFRS 1.4(c) states that entities would not apply IFRS 1 if the previous financial statements contained an explicit and unreserved statement of compliance with IFRS, even if the audit report was qualified due to non-compliance with IFRS, does the converse apply; namely if the audit report confirms that the financial statements purport to comply with IFRS, does this mean this reference in the audit report cannot be regarded as an explicit and unreserved statement of compliance with IFRS?

Some commentators are of the view that since Entity A did not include a statement of compliance with IFRS in the 2010 annual financial statements, albeit reference was made to compliance with IFRS in the audit report or it was implied from the reference to legislation in terms of which the financial statements were prepared, Entity A would be required to apply IFRS 1 in its 2011 annual financial statements.

Others are of the view that because the financial statements referred to the legislation (which requires the application of IFRS) in terms of which the financial statements were prepared, or the audit report explicitly considered compliance with IFRS, the entity has *implicitly* stated that its financial statements comply with IFRS and therefore it should not be allowed or required to apply IFRS 1 in 2011. They contend that if an entity was not purporting or required to apply IFRS, why would the audit report consider compliance with IFRS? Therefore, it must be construed that they were claiming compliance with IFRS.

In terms of the current wording of IFRS 1, many have been of the view that IFRS 1 could only be applied once and hence the issues noted above are not likely to have been an issue if there had previously been an explicit and unreserved statement of compliance with IFRS. As a result of the proposed changes, some commentators are concerned that it may be less clear whether an entity should use IFRS 1 or may even apply IFRS 1 inappropriately.

For example, an entity may wish to apply IFRS 1 more than once simply by not including the statement of compliance with IFRS in a particular year in order to take advantage the following year of some of the exemptions in IFRS 1. An entity may want to use fair value as deemed cost for property, plant and equipment to achieve a once-off revaluation without adopting a revaluation policy under IAS 16, or may wish to elect to reset cumulative foreign currency translation differences to zero to avoid the subsequent impact on earnings that would otherwise arise on disposal of a foreign operation.

There are also mixed views regarding the situation in which an entity includes an explicit and unreserved statement of compliance with IFRS in its financial statements, even though it is not able or willing to prepare its financial statements in terms of IFRS and, accordingly, its audit report is qualified. Some are of the view that this entity should neither be permitted nor required to apply IFRS 1 since it has included an explicit statement of compliance with IFRS in its most recent financial statements, albeit the audit report was qualified due to non-compliance with IFRS. Others, while accepting this view, contend that this requirement might result in entities continuing to include an explicit statement of compliance with IFRS, either by not specifically reconsidering this statement even if its audit report is qualified, or, in a worst case, deliberately to avoid having to apply IFRS 1 in the following year. Those who hold this view are concerned that there may be entities that will not apply IFRS as expected, either accidently or intentionally, resulting in IFRS 1 not being applied in a later period when this would be expected from the intention of IFRS 1 (even though it may be questioned whether this application of IFRS is appropriate or not).

Therefore, the wording in IFRS 1 should be reconsidered to provide clear guidance on when IFRS 1 should or may be used, and the IASB should consider whether it wishes to deal with what some consider possible abuses of IFRS 1 as outlined above.

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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 as described in the exposure draft.

PROPOSED AMENDMENT TO 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 amendments regarding presentation of the third statement of financial position and welcome the proposal that related notes need not be presented, except as noted below.

However, we believe that paragraph 40A should be amended as follows to require that the third statement of financial position be presented only if there is an impact on the statement of financial position, and not if there is only an impact on the statement of comprehensive income or statement of changes in equity or statement of cash flows:

"An entity shall present an additional statement of financial position as at the beginning of the required comparative period if it applies an accounting policy retrospectively, makes a retrospective restatement of items in its statement of financial position ~~financial statements~~ or reclassifies items in its statement of financial position that effects that additional statement of financial position ~~financial statements~~" (Words underlined have been added and deleted words have been struck through).

We also question the need for a third statement of financial position in instances where there are reclassifications. We believe that note disclosure would suffice as required by paragraph 41.

With regard to the additional comparative information that is provided voluntarily, we question the need to provide the related notes as proposed in paragraph 38B. If related notes are not required for the third statement of financial position, similarly we do not believe they should be required for additional comparative information that is provided voluntarily.

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 as described in the exposure draft.

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PROPOSED AMENDMENT TO IAS 16 – *PROPERTY, PLANT AND EQUIPMENT*

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 agree with the proposed amendment relating to servicing equipment, we believe that the Board should clarify what is meant by 'period'. IAS 16 defines property, plant and equipment as tangible assets that are expected to be used during more than one **period** (emphasis added).

The proposed amendments to paragraph 8 continue to make use of the word **period** in determining whether servicing equipment would qualify as property, plant and equipment. This term is not defined in IFRS. It is not clear whether the item should be used for more than one annual reporting period, more than one interim reporting period or more than one other period, such as a 12 month period from date of acquisition regardless of the reporting period. For example, if an item was only used during the last month of one financial period and the first month of the next financial period, should it be treated as property, plant and equipment or not?

In order to ensure consistent treatment, regardless of the reporting period, or regardless of when the item is acquired, we would suggest that the definition of property, plant and equipment be amended to clarify that they are items that are expected to be used during more than a 12-month period starting on the date of acquisition.

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 as described in the exposure draft.

PROPOSED AMENDMENTS TO IAS 32 – *FINANCIAL INSTRUMENTS: PRESENTATION*

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 proposed amendments to IAS 32 – *Financial Instruments: Presentation,* and consequential amendments to IFRIC 2 – *Members' Share in Co-operative Entities and Similar Instruments.*

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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 as described in the exposure draft.

PROPOSED AMENDMENT TO IAS 34 – *INTERIM FINANCIAL REPORTING*

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 34 – *Interim Financial Reporting.*

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 as described in the exposure draft.

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