24 November 2009

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

Dear Sir/Madam

SAICA SUBMISSION ON EXPOSURE DRAFT OF *IMPROVEMENTS TO IFRSs* – PROPOSED AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In response to your request for comments on the IASB's exposure draft on *Improvements to IFRSs* – Proposed amendments to International Financial Reporting Standards (2009), 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 – Accounting

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

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SAICA SUBMISSION ON EXPOSURE DRAFT *IMPROVEMENTS TO IFRSs – PROPOSED* AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

GENERAL COMMENTS

Except as noted in our specific comments below, we generally support the proposed improvements to the eleven Standards as detailed in the exposure draft.

We note that during the past year certain items were initially proposed to be included in the annual improvements project, but have not been included in the exposure draft. An example of this is the proposed amendment to IAS 39 *Financial Instruments – Recognition and Measurement* – effective interest method. It would be useful if the Board provided an indication (in the exposure draft or on their website) of why these items were not included in the exposure draft and how the Board intends dealing with them.

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?

Presentation and Disclosure (paragraphs 27-32)

We agree with the intention of the Board's proposal relating to changes in accounting policies or use of the exemptions. However, we believe that the wording of paragraph 27 and 27A should be amended as described below.

Currently the proposed wording in the first sentence of paragraph 27 states that "*IAS 8 does not apply to the changes in accounting policies an entity makes when it adopts IFRSs or to changes in those policies until it presents its first IFRS financial statements*." We understand that a first-time adopter is exempt from IAS 8 for the interim and annual periods presented in its first IFRS financial statements. The proposed wording in the first sentence of paragraph 27 could imply that IAS 8 needs to be applied in the first IFRS financial statements. Therefore, we suggest that the sentence be amended as follows: "*…changes in those policies until <u>after</u> it presents its first IFRS financial statements.*"

Currently the proposed wording of paragraph 27A states that an entity "*shall explain the changes in accordance with paragraph 23 and update the reconciliations required by paragraph 24(a) and (b)*." It is not clear whether paragraph 27A applies only when an entity has changed accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report, or whether it needs to be applied even if there has been no change to previously published financial information. We believe that it should only apply when there has been a change to previously published interim financial statements in the period covered by the entity's first IFRS financial statements because the reconciliations required by paragraph 24(a) and (b) are required in interim financial statements for part of the period covered by an entity's first IFRS financial statements. Accordingly, if there have been changes, the reconciliations required by paragraph 24(a) and (b) in the first IFRS financial statements need to be updated from those presented in the interim financial statements. Therefore, we propose that paragraph 27A be amended to clarify this.

Furthermore, while the changes are required to be explained, it could be made clearer that the initial and revised policy choice are required to be given; otherwise it could be argued that it would be acceptable to state, for example, "regarding the accounting policy choice for XX the entity changed its initial choice of policy to … subsequent to the publication of its interim results."

Fair value or revaluation as deemed cost

We do not support the proposed change relating to the use of an event-driven fair value measurement subsequent to the date of transition as deemed cost. We understand that the intention of the exemptions in IFRS 1 is to provide relief upon transition to IFRS. We do not believe the proposal provides any relief because it appears that an entity is only permitted to use the event-driven fair value measurement *from* the measurement date. If this date is after the date of transition, it appears that an entity would still be required to determine the appropriate carrying value at the date of transition and that this event-driven fair value cannot be used as of the date of transition. Therefore, if there is no further relief as of the date of transition, we question the purpose of the proposed amendment. The proposed amendment would effectively allow a once-off revaluation *after* transition to IFRS, which is otherwise not permitted. While we acknowledge the concerns about the use of hindsight set out in BC5 and BC6, we think that using the event-driven fair value measurement to determine deemed cost at the date of transition at least provides relief on transition to IFRS. If the proposed amendment does not provide relief on transition, we do not believe that the Board should proceed with it.

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 effective date for the issue as described in the exposure draft but we would like clarity on the proposed transitional provisions. The proposed wording of paragraph 39B states 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."* This implies that the proposed change relating to deemed cost could be applied by entities that were first-time adopters in say 2005. We question whether this is appropriate on the basis that it appears to give entities a once-off benefit after transition to IFRS rather than relief on transition.

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PROPOSED AMENDMENTS TO IFRS 3 – *BUSINESS COMBINATIONS (AS REVISED IN 2008)*

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 Board’s proposal to amend this IFRS to clarify the measurement of non-controlling interests. We also agree with the proposal regarding un-replaced and voluntarily replaced share-based payment awards for the reasons set out in the Basis for Conclusions.

However, we believe that the proposed wording of paragraph 19 of IFRS 3 could be improved. We suggest the following: “For each business combination, the acquirer shall measure any non-controlling interest in the acquiree either at fair value or ~~other measurement basis as required by IFRSs, except for the components of~~ *at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets. However, in the case of any components of* non controlling interest that are *not* present ownership instruments ~~*and*~~ *that* entitle their holders to a pro rata share of the entity’s net assets in the event of liquidation~~. The acquirer shall measure those components~~, *that portion* of *the* non-controlling interest *should be measured* either at fair value or ~~at the present ownership instruments’ proportionate share of the acquiree’s identifiable net assets~~ *other measurement basis as required by IFRSs.”*

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?

Yes, we agree with the proposed transition provisions and effective date for the issue as described in the exposure draft. However, in light of concerns regarding business combinations that occurred before the effective date of the proposed amendments, we suggest that the wording in paragraph 64A (which deals with the effective date) should clarify that these amendments are applicable for “*annual periods beginning on or after 1 July 2010 in respect of business combinations to which IFRS 3 (2008) applies”.*

PROPOSED AMENDMENT TO IFRS 5 – *NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS*

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 proposal to apply IFRS 5 to situations where an entity loses significant influence or joint control and the criteria for held for sale have been met. However, we believe that further clarification should be provided for circumstances when an entity loses joint control by way of a sales transaction, but retains significant influence. It is not clear whether IFRS 5 would apply, especially when the equity method of accounting was being applied to the joint venture. In our view, because the investment would continue to be equity accounted we do not believe that IFRS 5 should be applied.

We also believe that the last sentence of BC2 should be included in paragraph 8A as it is important to clarify that if the change in interest is due to a step acquisition, "*an entity shall not classify as held for sale its investment in an associate or a jointly controlled entity in accordance with IFRS 5 when it is highly probable that control will be obtained because there will be no sale.*"

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?

No rationale is given for the proposed effective date of annual periods beginning on or after 1 January 2010, which appears to be much earlier than all the other proposed effective dates. There is a concern that, depending on when the final amendments are issued, the first interim period financial statements may be issued before the publication of the final amendments.

PROPOSED AMENDMENT TO IFRS 7 – *FINANCIAL INSTRUMENTS: 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 support the Board's proposal to amend this IFRS and agree with the proposed changes.

We also agree that often the carrying value of financial instruments, either the amortised cost value or the fair value of the instrument, is the amount that represents the entity's maximum exposure to credit risk. However, we would recommend that entities still be required to disclose the fact that the carrying amounts of financial assets represent the maximum exposure to credit risk, where this is applicable. We believe that users would benefit from this information as it would confirm to users that these financial assets do expose the entity to credit risk and that the carrying value represents the maximum exposure. Otherwise, under the proposed amendments, the financial statements would be completely silent on the credit risk exposure assuming that the carrying value does represent the maximum credit risk exposure. Without a statement to this effect, users may be unsure whether this disclosure has been omitted or whether the carrying values reflect the credit risk exposure. We therefore propose that the wording in paragraph 36(a) dealing with the amount that best represents an entity's maximum exposure to credit risk be amended to clarify this.

Similarly, we also recommend that the wording in paragraph 29 or 30 of IFRS 7, that deals with examples of when disclosures of fair value are not required, should be updated to require entities to disclose the fact that the carrying amounts of certain financial instruments approximates their fair values, where this is applicable. We believe that users would find this information useful in that it will confirm that this is the fair value, otherwise it may not be clear whether fair value disclosures have been provided.

The proposed amendment to paragraph 36(b) requires disclosure of "…*the financial effect of collateral held as security and other credit enhancements (eg a description of the extent to which collateral and other credit enhancements mitigate credit risk)*…" It is not entirely clear what is meant by "*financial effect*" and the example in brackets does not fully explain this either – we suggest that the term be clarified and better defined. For example, it is not clear whether it would be sufficient to disclose that a certain percentage or currency amount of the balance was collateralised or whether the fair value of the collateral needs to be provided. In addition, we also suggest that the words "*a description of the extent*" be replaced with "an *indication* of the extent" because a *description* implies a narrative and not necessarily a quantitative indication.

We also propose a further amendment to paragraph 37(a) to clarify that an analysis of the age of financial assets should be provided for "*financial assets that are past due as at the end of the reporting period but not individually impaired*." This will then be in line with paragraph 37(b) that requires an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period.

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?

Yes, we agree with the proposed transition provisions and effective date for the issue 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?

While we agree with the intention of the Board's proposal to amend this IFRS, i.e. to allow flexibility on the reconciliation requirements for classes of accumulated other comprehensive income, we do not agree with the proposed wording of paragraph 106. By starting the paragraph with "*An entity shall present a statement of changes in equity showing in the statement or in the notes*:…" it appears that none of the items mentioned in (a) – (d) are required to be on the face of the statement of changes in equity. If all the items in (a) – (d) were presented in the notes only, this would imply that the statement of changes in equity would only contain the equity balances because IAS 1 specifically requires a statement of changes in equity to be presented as a primary statement. However, this would then not be a 'statement of *changes* in equity'. We are not sure if this is what the Board intended with the amendment. For example, we believe that items in (d)(iii) should be on the face of the statement of changes in equity.

Based on BC1, we would have expected the proposed change to relate only to the items in (d)(ii). BC1 only refers to paragraph 106(d) (the component which requires a reconciliation for each component of equity) but actually relates to paragraph 106(d)(ii) as it addresses the requirement to provide a reconciliation "*for each component of other comprehensive income"*. We would therefore suggest that paragraph 106(d)(ii) be moved to a separate paragraph to allow these components of the statement of changes in equity to be presented either in the statement of changes in equity or the notes. We propose that paragraph 106(d)(ii) then be changed to require "*<u>total</u> other comprehensive income*" to be presented on the face of the statement of changes in equity with a separate paragraph stating that the reconciliation of each item of other comprehensive is allowed to be disclosed in the notes.

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?

Yes, we agree with the proposed transition provisions and effective date for the issue as described in the exposure draft.

PROPOSED AMENDMENT TO IAS 8 – *ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS*

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 question the Board's proposal to amend this IFRS as part of the Annual Improvements Project ahead of the publication of the revised *Framework*. While we do not disagree with the alignment of the terminology, we would have expected consequential amendments to IAS 8 once the revised *Framework* is issued.

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?

Assuming the Board approves the proposed amendment, we agree with the proposed transition provisions and effective date for the issue as described in the exposure draft.

PROPOSED AMENDMENTS TO IAS 27 – *CONSOLIDATED AND SEPARATE 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 proposal to require the application of IAS 39 for the impairment testing of investments in subsidiaries, associates and joint ventures carried at cost; however, we have some concerns with the other proposals.

Paragraph 38 has been amended to state that investments in subsidiaries, associates and joint ventures could be *carried at cost in accordance with IAS 39*. It is not clear why there needs to be a reference to IAS 39 for application of the cost method in IAS 27. The amendment should clarify whether cost can be used only if the requirements for using cost under IAS 39 have been met or whether using cost is a free choice. IAS 39 does not permit equity investments to be measured at cost (except for unlisted equity investments for which it is not possible to determine fair value reliably). If using cost is a free choice, then we question why there should be a reference to IAS 39. We believe that using cost should be a free choice. We also note that the IAS 39 cost exemption has been deleted in IFRS 9, which effectively means that no equity investment can be measured at cost (unless cost represents fair value). Therefore we believe that IAS 27 should permit the usage of cost and simply refer to IAS 39 for impairment testing.

We note that the Board has also made a change to paragraph 38(b) which they have not referred to in the Basis for Conclusions. Previously an entity could account for investments in subsidiaries, jointly controlled entities and associates in accordance with IAS 39 (i.e. account for the investment at fair value through profit or loss or available-for-sale). The proposed amendment now mandates the use of the 'fair value through profit or loss' category if the cost method is not elected. It is not clear why this proposed change has been made. We suggest that the current wording in paragraph 38, which merely refers to IAS 39, be retained. It is not clear why these investments should not be permitted to be classified as available-for-sale (under the current version of IAS 39). Similarly, as IFRS 9 permits certain equity investments to be measured at fair value through other comprehensive income, it is not clear why IAS 27 should not permit such classification for investments in subsidiaries, jointly controlled entities and associates.

While we agree with the proposal to require the application of IAS 39 for the impairment testing of investments in subsidiaries, associates and joint ventures carried at cost, we believe that the wording in the current standards is clear in that IAS 36 should be applied. Paragraph 4 of IAS 36 requires IAS 36 to be applied for impairment testing of these investments. Therefore, we do not support the proposal on the basis that it clarifies the current requirements, but rather on the basis that these investments are financial instruments by nature, and therefore IAS 39 is more appropriate.

Given that IAS 36.4 requires IAS 36 to be applied, we believe that this paragraph should be amended if the proposals are accepted. It is not clear why there is no proposal to delete references to subsidiaries, associates and jointly controlled entities in this paragraph, but we believe this is an oversight.

Furthermore, we believe that the wording of the newly proposed paragraph 2(j) of IAS 36 which deals with exempting investments in subsidiaries, jointly controlled entities and associates that are accounted for at *cost* in the separate financial statements from the scope of IAS 36 should be revised to exclude *all* investments in subsidiaries, jointly controlled entities and associates and not just those accounted for at *cost*. Otherwise, this could create uncertainty about whether IAS 36 applies to these investments carried at fair value.

We also recommend that the scope paragraph of IAS 39 be amended to indicate that IAS 39 applies to the determination and measurement of impairment losses on investments in subsidiaries, jointly controlled entities and associates accounted for at cost in the separate financial statements.

Although reference is made in paragraph 38D of IAS 27 to applying the requirements of IAS 39 for the determination and measurement of impairment losses, it is not explicit which guidance in IAS 39 should be applied. Since these investments are accounted for at cost, it would appear that the requirements in IAS 39.66 for the impairment of financial assets carried at cost would apply. However, under those requirements impairment losses may not be reversed. We do not believe this prohibition is appropriate because the reason why such reversal is not allowed in IAS 39 is unlikely to be applicable to these investments. IAS 39 allows certain unquoted equity investments to be carried at cost if their fair value cannot be measured reliably. If the fair value of these investments cannot be determined, then it would be difficult or impossible to determine the extent to which any impairment loss has reversed. However, in the case of investments in subsidiaries, associates and joint ventures, it is likely that the fair values can be determined reliably and accordingly whether any impairment loss has reversed. Entities can elect to apply the cost method to such investments under IAS 27 even if their fair value can be determined reliably and accordingly any impairment loss should be permitted to be reversed.

Since the investments are equity investments, we believe that the impairment testing should be done on a similar basis to available-for-sale equity investments under IAS 39 (i.e. on a fair value basis), but that reversals of impairment losses should be permitted to the extent that the fair value increases subsequently.

We note that IFRS 9 deletes the reference to impairment of financial assets carried at cost and also does not address impairment testing of equity investments since there is no reclassification from other comprehensive income to profit or loss. Therefore, if IFRS 9 is applied, we believe that guidance should be provided on how the impairment model should be applied.

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 for the issue as described in the exposure draft. We furthermore support the proposed change for transition requirements for amendments made as a result of IAS 27 to IAS 21, IAS 28 and IAS 31.

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PROPOSED AMENDMENT TO IAS 28 – *INVESTMENTS IN 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 agree with the Board's proposal to amend IAS 28 for the reasons set out in the Basis for Conclusions. However, we question why the proposal has not been extended to investments in jointly controlled entities where a portion of the investment qualifies for the similar scope exclusion in accordance with paragraph 1 of IAS 31. We believe that the proposal should also be applied to investments in jointly controlled entities.

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?

Yes, we agree with the proposed transition provisions and effective date for the issue 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 amendment to place greater emphasis on disclosure principles and include additional examples relating to more recent disclosure requirements. However, there appears to be some confusion regarding the first sentence of paragraph 16A, which states "*Notwithstanding the requirements in paragraphs 15-15C, an entity shall include the following information, as a minimum…*" We understand that the requirements in paragraph 15-15C are required for 'significant events and transactions'. It is not clear whether the requirements in paragraph 16A are required for all items listed even if not 'significant'.

In paragraph 16A, the sentence before the list of items states: "*However, the entity shall also disclose any events or transactions that are necessary to an understanding of the current interim period:*". We understand that this sentence means that any events or transactions other than those listed in paragraph 16A(a) – (i) should also be disclosed if they are necessary to an understanding of the current interim period. The position of this sentence is misleading as it could imply that the items listed in paragraph 16A(a) – (i) should only be disclosed if they are necessary to an understanding of the current interim period. We therefore recommend that the sentence be moved to below the list, i.e. after paragraph 16A(i).

We also note that the word 'significant' is used in paragraph 15. This word is not defined and there appears to be confusion as to how it compares to 'material'. Is it a lower or higher threshold?

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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?

Yes, we agree with the proposed transition provisions and effective date for the issue as described in the exposure draft.

Question 3

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?

Yes, we agree that the proposed amendments to IAS 34 in this annual improvements project are likely to lead to more useful information being made available to investors and other users of interim financial reports.

Question 4

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?

Yes, we 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.

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?

While we believe that the proposal simplifies the accounting because there would be no reclassifications to inventory (i.e. only IAS 40 will be applied), we question whether the proposal reflects appropriately the nature of the underlying transaction when property is being developed for sale. It appears inconsistent that such property would not be treated as inventory compared to property acquired with the sole purpose of development for sale. Also, it appears to be inconsistent with the recent amendment to IAS 16 for items of property, plant and equipment acquired for rental which are routinely sold, which are now required to be transferred to inventories.

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We note that paragraph 60 still refers to transfers from investment property to inventories, which is no longer permitted under the proposed amendment.

We would also note that we understand the proposal to amend IAS 40 would remove the requirement to transfer investment property measured under <u>the cost model</u> to inventory when it will be developed for sale and not only investment property carried at fair value.

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?

Assuming the Board proceeds with the project (refer to our response to question 5 below), we agree with the proposed transition provisions and effective date for the issue as described in the exposure draft.

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 do not agree that the proposed amendment should be included within Improvements to IFRSs as we believe a separate project should be undertaken to address this issue for the reasons stated above in our response to Question 1. We believe the Board should ensure that it adopts a consistent approach and develops consistent principles to deal with changes in the intention of entities with respect to the use of assets. We also believe the Board should consider practical application issues. For example, an entity that previously acquired land for capital appreciation purposes subsequently decides to develop the land for residential purposes. The residential units will be sold. Under the proposals it appears that the land would not be transferred to inventory but would remain classified as investment property. What is not clear is whether the buildings under construction should be classified as inventory or investment property.

PROPOSED AMENDMENT TO IFRIC 13 – *CUSTOMER LOYALTY PROGRAMMES*

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 intention of the proposal to clarify that when the fair value of award credits is measured based on the (fair) value of the awards for which they could be redeemed, the (fair) value of the awards must be adjusted to reflect expected forfeitures, and we agree with the changes to the illustrative example, we do not believe that the proposed amendments to IFRIC 13 AG 2 should be made.

This is because reference to the *value* (as opposed to *fair* value) of awards still does not provide further guidance to entities on how to calculate the value of awards and may lead to the interpretation that these awards do not need to be fair valued. In the introduction of the proposed amendment, it is stated that the Board proposes to amend IFRIC 13 to clarify the meaning of the term ‘fair value’, but this has not been achieved through the proposed amendment. There is a concern that some may interpret ‘value’ of the awards as being the cost to the entity. For example, for a frequent flyer programme, the ‘value’ of an award (being a free flight) may be interpreted to be the cost to the airline, whereas use of the words ‘fair value’ makes it clear that one cannot use cost. Furthermore, the first sentence of AG2 still refers to the *fair value* of the awards.

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?

Assuming the Board approves the proposed amendment, we agree with the proposed transition provisions and effective date for the issue as described in the exposure draft.

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