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Dear David,

Consequential Amendments to Proposed Improvements to IAS 38 – Advertising and Promotional Activities and to IAS 19 – Curtailments and Negative Past Service Cost

GASB followed the discussions held at IASB meetings in February and March 2008 regarding the Exposure Draft of Proposed Improvements to IFRSs issued in October 2007. We commented on this ED on 4 January 2008. In that comment letter we expressed our appreciation for establishing the Annual Improvements Process project, in general, and the objective of this project, that is streamlining the standard setting process with benefits both for interested parties and for the IASB.

Because of the preliminary results of the IASB's comment letter analysis and the announced consequential amendments we, now, would like to supplement our comments made on IASB's Exposure Draft in respect of two proposed amendments as follows (Please refer to the appendix to this letter for an extract from GASB's comment letter of 4 January 2008.):

Proposed amendments to International Accounting Standard 38 *Intangible Assets* – Advertising and promotional activities

We agreed in our above-mentioned comment letter with the proposed amendment to IAS 38.69 to clarify when an entity has to recognise expenditure on an intangible item as an expense, i.e. to clarify what the IASB meant by the term 'as incurred'. We considered this a 'meaningful clarification'. Accordingly, we agreed with the proposed amendment to IAS 38.70 in principle.

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Vorstandsausschuss:

Heinz-Joachim Neubürger (Vorsitzender), Dr. Helmut Perlet (Stellvertreter), Prof. Dr. Rolf Nonnenmacher (Schatzmeister), Dr. Kurt Bock, Dr. Werner Brandt
Generalsekretär: Prof. Dr. Manfred Bolin



As we noted now from the IASB Update February 2008 the IASB concluded to make some consequential amendments to the original proposed amendments because of the comments received. The IASB, inter alia, intends 'to state that catalogues are a form of advertising'.

We think that this consequential amendment goes beyond the original improvement and poses new, fundamental questions, e.g. regarding

- the accounting for catalogues that are sold to costumers or
- the accounting for online catalogues (closely related with the question whether an amendment to SIC 32 becomes necessary).

We see that these points relate to the question what is and what is not advertising and promotional expenditure, i.e. a definition of advertising and promotional activities. We also understand that these issues are of a fundamental nature.

We take, therefore, the view that it is not reasonable and not really helpful to pick *one* special form and state that this is advertising. In particular, we do not take the view that a plain statement regarding catalogues will improve accounting in this area.

We believe the above-raised aspects show that it is necessary to re-deliberate the catalogue issue in a broader context. We encourage the IASB to consider a separate project on advertising and promotional activities. We recognise and understand that the IASB rejected in December 2007 adding a separate project on Intangibles to its active agenda. Nevertheless, we think it would be beneficial for all constituents – the IASB as well – to consider a smaller project with a limited scope to answer all current and potentially upcoming questions with respect to advertising and promotional activities on a conceptually basis, rather than just making a 'catalogue statement'.

Proposed amendments to International Accounting Standard 19 *Employee Benefits* – Curtailments and negative past service costs

As we noted from the IASB Update February 2008 the Board tentatively decided to amend its proposals on the distinction between a curtailment and negative past service cost to clarify that a change in the extent to which benefit promises are affected by future salary increases is a curtailment. It seems to us that this amendment might be contradictory because in our view a reduction in or a removal of the link to future salary increases affects past and future services and therefore includes both, a curtailment and negative past service costs.

We, therefore, would recommend to clarify that a reduction in or a removal of the link to future salary increases is a curtailment only as far as future service is concerned.

If you would like to discuss any aspects of this letter in more detail, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President



Extract from GASB's comment letter to IASB of 4 January 2008:

Proposed amendments to International Accounting Standard 38 *Intangible Assets*

Advertising and promotional activities

Question 28(a) – *Do you agree that IAS 38 should emphasise that an entity should recognise expenditure on an intangible item as an expense when it has access to the goods or has received the services? If not, why?*

We agree with the proposed amendment to clarify what the term 'as incurred' means in connection with the recognition of expenses in terms of paragraph 69 of IAS 38 because it represents a meaningful clarification.

Question 28(b) – *Do you agree that paragraph 70 of IAS 38 should be amended to allow an entity to recognise a prepayment only until it has access to the related goods or has received the related services? If not, why?*

We basically agree with this amendment regarding paragraph 70 of IAS 38 because it represents a meaningful clarification.

However, we think it should be made clear that recognition of a prepayment as an asset is not only permitted when payment for goods or services have been made in advance of the entity gaining access to those goods or receiving those services, but rather required. Paragraph 70 states: 'Paragraph 68 does not preclude an entity from recognising a prepayment as an asset when payment for goods has been made in advance of the entity gaining access to those goods. Similarly, paragraph 68 does not preclude ... recognising ... an asset ... when payment for services has been made in advance of ...' From our point of view the phrase 'does not preclude' is misleading in this context because it does not reflect this requirement and could, therefore, lead to confusion and potentially further divergence in practice.

Furthermore, it could be made even clearer than has been done that a prepayment shall be recognised by an entity only **until** that entity has access to the related goods or has received the related services. From our point of view the Basis for Conclusions of the proposed amendment [BC 4] is more precise and clearer in this aspect by using the term 'until' than paragraph 70 itself.

Proposed amendments to International Accounting Standard 19 *Employee Benefits*

Curtailments and negative past service costs

Question 14(a) – *Do you agree that IAS 19 should be amended to clarify that when a plan amendment reduces benefits for future service, the reduction relating to future service is a curtailment and any reduction relating to past service is negative past service cost? If not, why?*



We agree with the proposed amendment to IAS 19 because it represents a meaningful clarification.

Question 14(b) – *Do you agree that the Board should delete the following sentence from paragraph 111 of IAS 19: ‘An event is material enough to qualify as a curtailment if the recognition of a curtailment gain or loss would have a material effect on the financial statements.’? If not, why?*

We also agree with the proposal to delete the above mentioned sentence in paragraph 111 of IAS 19 for the reasons given in the Basis for Conclusions [BC10], i.e. the materiality notion is one of the underlying assumptions set out in the IASB Framework and is, therefore, relevant to each accounting issue, which means it does not need to be repeated in IAS 19.

However, we think that the replacement of the term ‘material’ by ‘significant’ should be mentioned in the Basis for Conclusions and the reasoning for this amendment – irrespectively how small it seems to be – should be stated.