Deutsches Rechnungslegungs Standards Committee e.V.
Accounting Standards Committee of Germany
® Der Standardisierungsrat

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Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Berlin, 16 November 2009

Dear David,

Exposure Draft ED/2009/11 Improvements to IFRSs (Third Project Cycle; 2008-2010)

We appreciate the opportunity to respond to the International Accounting Standards Board's Exposure Draft (ED) ED/2009/11 'Improvements to IFRSs' (an ED of proposed amendments to International Financial Reporting Standards) under the third cycle of the Annual Improvements project. This letter represents the view of the German Accounting Standards Board (GASB).

Our detailed comments on the fifteen amendments proposed are set out in the appendix to this letter. In summary, we basically agree with most of the proposals contained in the ED. In some cases, though we agree in principle, we provide additional comments that could, from our point of view, further improve the amendments. However, in a few cases we disagree with the proposed amendment or a part of the proposed amendment to the respective Standard for reasons also set out in the appendix to this letter. These amendments are:

- IFRS 5 – Application of IFRS 5 to loss of significant influence over an associate or loss of joint control in a jointly controlled entity (only disagreeing with the proposed effective date),
- IAS 8 – Change in terminology to the qualitative characteristics,

- IAS 27 – Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor (partly disagreeing) and
- IAS 40 – Change from fair value model to cost model.

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

Yours sincerely,

Liesel Knorr
President

APPENDIX

General questions (applicable to all proposed amendments)

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?

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

Proposed amendments to IFRS 1 *First-time Adoption of International Reporting Standards*

Accounting policy changes in the year of adoption

We agree with the proposed amendments to paragraphs 27 and 32 of IFRS 1 and with the addition of paragraph 32A to IFRS 1 because we deem it an appropriate requirement that if a first-time adopter changes its accounting policies or its use of the exemption in IFRS 1 after it has already published an interim financial report in accordance with IAS 34 *Interim Financial Reporting,* it explains those changes and also updates the reconciliation required by paragraphs 24(a) and 24(b).

We also agree with the proposed effective date of 1 January 2011 and the transitional provisions for the amendments.

Revaluation basis as deemed cost

We support the proposed amendment to paragraph D8 of IFRS 1 that amends the scope of the exemption in paragraph D8 which permits a first-time adopter to use the revaluation basis as 'deemed cost' when an event such as a privatisation has triggered a revaluation at or before the date of transition to IFRSs. GASB shares the IASB's conclusion that it does not represent a major difference whether the revaluation occurs before or after the date of transition to IFRSs but during the periods covered by the first IFRS financial statements, i.e. the reasons for granting the original exemption are equally valid for similar valuations at both points in time.

We also agree with the proposed effective date of 1 January 2011 and the transitional provisions for the amendment.

Proposed amendments to IFRS 3 *Business Combinations* (as revised in 2008) and Appendix to proposed amendments to IFRS 3, Amendments to other IFRSs

Measurement of non-controlling interests

GASB agrees with the proposed amendment to paragraph 19 of IFRS 3 that clarifies that the choice of measuring non-controlling interest either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets applies only to instruments that are currently entitled to a proportionate share of the acquiree's net assets.

We also agree with the proposed effective date of 1 July 2010 and the transitional provisions for the amendment.

Un-replaced and voluntarily replaced share-based payment awards

We agree with the proposed amendments and additions to the application guidance in IFRS 3 and the amendment to paragraph 30 of IFRS 3 since we think it is appropriate to require the acquirer to apply the paragraphs B57-B62B to all share-based payment transactions that are part of a business combination regardless of whether they are not replaced by share-based payment transactions of the acquirer or voluntarily replaced by the acquirer, even though they would not expire as a consequence of the business combination.

We also support the proposal to align the terminology in IFRS 3 with that in IFRS 2 *Share-based Payment*, in particular the replacement of the term 'share-based payment award' in paragraph 30 of IFRS 3 with 'share-based payment transaction'. In this context we only have a remark on the drafting which relates to the proposed footnote to be inserted to the term 'share-based payment awards' in sentence one of paragraph B56. The footnote states that 'In the paragraphs B56-B62B the term 'share-based payment awards' refers to vested or unvested share-based payment transactions.'. However, the term 'share-based payment awards' is not used in the paragraphs B62A and B62B. Therefore, we think the footnote should only refer to paragraphs B56-B62.

We also agree with the proposed effective date of 1 July 2010 and the transitional provisions for the amendments.

Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS

We agree with the proposed amendments to paragraph 97B of IAS 32, paragraph 103D of IAS 39, and paragraph 44B of IFRS 7 that clarify that IAS 39 does not apply to pre-adoption contingent consideration, i.e. contingent consideration arising from business combinations whose acquisition dates preceded the application of the revised IFRS 3.

However, we wonder whether this amendment is really necessary against the background that IFRS 3 (revised 2008) requires prospective application and the IASB Update, May 2009, page 4, in connection with the question whether it is necessary to clarify the transitional provisions of (other) consequential amendments resulting from revised IFRS 3, states the following: '…, there is no need to clarify the consequential amendments made by IFRS 3 because IFRS 3 clearly requires prospective application.' If one accepts this statement, it then, in our view, follows that the consequential amendments to the scope of IAS 32, IAS 39 and IFRS 7 with respect to the accounting of contingent consideration should also be applied prospectively. In addition we think that paragraph 64 of IFRS 3 makes it absolutely clear when it states: 'This IFRS shall be applied prospectively to business combinations *for which the acquisition date is on or after* …' that only contingent consideration arrangements arising from business combinations whose *acquisition date is on or after* the effective date of the revised IFRS 3 are affected by the new accounting requirements for contingent consideration. From this it directly follows, in our view, that the requirements of IFRS 3 (revised 2004) apply to contingent consideration arrangements arising from business combinations whose *acquisition date is before* the effective date of the IFRS 3 (revised 2008), even if the condition(s) for the contingent part of the consideration has/have been fulfilled after that date. Therefore, we see no reason why the consequential amendments to IAS 32, IAS 39 and IFRS 7 in respect of contingent consideration require a particular treatment, i.e. particular transitional provisions in comparison with the other consequential amendments resulting from IFRS 3 (revised 2008).

Irrespective of the view explained above, we do not, in the end, disagree with the proposed amendment as it merely clarifies what we think has already been clear.

Proposed amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Application of IFRS 5 to loss of significant influence over an associate or loss of joint control in a jointly controlled entity

We fully agree with the proposed amendment that clarifies that an entity shall classify its interest in an associate or a jointly controlled entity as held for sale when it is committed to a sale plan involving loss of joint control or significant influence. We think that the proposed amendment is consistent with the IASB decision taken in its first cycle of the Annual Improvements project regarding IFRS 5 that clarified that assets and liabilities of a subsidiary shall be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary. Furthermore, we believe that the current proposal is consistent with the general IASB decision taken in the second phase of its Business Combinations project that the loss of control of a subsidiary, the loss of significant influence over an associate and the loss of joint control over a jointly controlled entity are economically similar events, which thus should be accounted for similarly.

However, we do not agree with the proposed effective date of 1 January 2010 as we do not expect the IASB to publish the final amendment before April 2010. As the proposed effective date is before that date, we assume that the proposal possibly represents an editorial oversight. We believe that the IASB should clarify this aspect and we would recommend that 1 January 2011 be the effective date just as it is for most of the other amendments in this ED. However, if the IASB prefers an effective date in 2010, we think the earliest effective date could be 1 July 2010. Irrespective of this, we agree with the transitional provisions for the amendment, in particular its prospective application.

Proposed amendments to IFRS 7 *Financial Instruments: Disclosures* and to guidance on implementing IFRS 7

Disclosures about the nature and the extent of risks arising from financial instruments

We agree with the proposed amendments to paragraphs 34(b), 34(c), 36(a), 36(b) and 38 of IFRS 7, the addition of paragraph 33A to IFRS 7 and with the proposed removals of paragraphs 36(d), 37(c), IG3 and IG4 from IFRS 7 and from the guidance on implementing IFRS 7, respectively.

We also agree with the proposed effective date of 1 January 2011 date and with the transitional provisions for the amendments.

Proposed amendment to IAS 1 *Presentation of Financial Statements*

Clarification of the statement of changes in equity

As we understood from the discussion in the Observer Note, the objective of this amendment is to allow entities to abstain from displaying the items of other comprehensive income (OCI) on the face of the statements of changes in equity, and instead to include this information in the notes. We fully agree with this objective.

However, we question that the wording of the proposed amendment meets this concrete objective. As the amendment is drafted now, it offers the option to show *all* the items required in IAS 1.106 *either* on the face of the statement of changes in equity *or* in the notes. In case an entity uses this option in effect it will dislocate the whole 'statement of changes in equity' to the notes to the financial statements. We believe that this is inconsistent with IAS 1.10 and .11 which state that 'a complete set of financial statements comprises: … (c) a statement of changes in equity for the period; …' and, in addition, require an entity to present all of the financial statements in a complete set of financial statements 'with equal prominence'.

In principle, we find it acceptable to dislocate the whole or a lot of information required by IAS 1.106 to the notes. However, we reject this being an option as we think comparability of information between entities would significantly be weakened. Therefore, we would prefer a clear requirement which items required by IAS 1.106 shall be shown on the face of the statement of changes in equity and which in the notes. However, in order to achieve the IASB's original objective to allow entities showing the items of OCI in the notes instead of on the face of the statement of changes in equity, we think it would be sufficient to add to the current IAS 1.106 a sentence like: 'The information required in IAS 1.106(d)(ii) may be shown in the notes.'

Regarding the proposed amendment to IAS 1.107 we would like to note that in our view this amendment eliminates the requirement to show the amount of *dividends* recognised as distributions to owners during a period because IAS 1.106(d)(iii) only requires an entity to show *distributions to owners* separately. The amount of distributions to owners includes the amount of dividends but may contain additional amounts resulting from other forms of distributions to owners, for example resulting from the redemption of shares. If this is the case the amount of dividends distributed to owners in a period neither can be found in the statement of changes in equity nor in the notes. We question that this is really the intention of the proposed amendment to IAS 1.107.

Irrespective of the above-mentioned positions, we agree with the proposed effective date of 1 January 2011 and the transitional provisions for the amendment.

Proposed amendment to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Change in terminology to the qualitative characteristics

We do not agree with the proposed amendments to paragraphs 10, 14 and 29 of IAS 8 as we are not able to finally assess whether these amendments are appropriate before the respective final chapter of the forthcoming conceptual framework has been published.[1] In this context we refer to our general position set out in our comment letter to the Exposure Draft of an improved Conceptual Framework for Financial Reporting – Chapter 1: The Objective of Financial Reporting, and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting dated 26 September 2008. In this comment letter we expressed our concern with the replacement of parts of the current framework before the discussion of the other fundamental aspects of the framework, i.e. later phases of the project, has been completed. We furthermore stated in this comment letter that we would have preferred if all consequential amendments had been exposed in connection with the above-mentioned Exposure Draft in order to enable the commentators to conclusively assess the implications of the proposed amendments to the framework. Even if we understand that this would have required a lot of time and work and would probably have delayed the progress in the Framework project, we had considered it a more appropriate approach in comparison with doing some of the consequential amendments by the Annual Improvements project as it is proposed now.

Proposed amendments to IAS 27 *Consolidated and Separate Financial Statements* and Appendix to proposed amendments to IAS 27, Amendments to other IFRSs

Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor

GASB fully supports the proposed additions of paragraph 38D to IAS 27 and paragraph 2(j) to IAS 36 *Impairment of Assets* because we deem it an appropriate requirement that in its separate financial statements the investor shall apply the provisions of IAS 39 *Financial Instruments: Recognition and Measurement* to test its investments in subsidiaries, jointly controlled entities and associates for impairment.

However, we do not agree with the proposed amendment regarding paragraph 38 of IAS 27, i.e. the replacement of the accounting option in paragraph 38(b) that permits an entity to account for investments in subsidiaries, jointly controlled entities and associates ‘in accordance with IAS 39’ by the requirement to account for them ‘at fair value through profit or loss’. In our view this amendment restricts the way an entity is permitted to account for its investments in subsidiaries, jointly controlled entities and associates without explaining the IASB’s rationale for this amendment in the Basis for Conclusions. We are not convinced that this restriction is appropriate. Even if we understood from the Observer Notes that the IASB staff – and by including the

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1 At the time when we finalised our deliberations of the proposed amendments of the 2009 ED the final chapter regarding the qualitative characteristics of, and constraints on, useful financial

proposal in the ED obviously also the IASB – are of the view that the IASB's original intention regarding the requirement in paragraph 38(b) of IAS 27 has always been to permit entities to account for respective investments 'at fair value through profit or loss', we think the existing wording of Standard is what counts. The current wording offers – as mentioned above – other accounting alternatives, e.g. 'at fair value through OCI'. Therefore, the proposed amendment might represent for some entities a significant change in accounting for investments in subsidiaries, jointly controlled entities and associates. As we are not convinced that this change is appropriate, we ask the IASB at least to explain its rationale for the amendment in the Basis for Conclusions.

Irrespective of this, GASB agrees with the proposed effective date of 1 January 2011 and the transitional provisions for the amendment, in particular the prospective application of the amendment.

Transition requirements for amendments arising as a result of IAS 27 (as amended in 2008)

In principle, we agree with the proposed amendments regarding paragraph 60B of IAS 21, paragraph 41B of IAS 28 and paragraph 58A of IAS 31 that clarify that these consequential amendments resulting from IAS 27 (as amended 2008) have to be applied prospectively.

However, in our view, this amendment might be regarded as being too late in respect of the fact that the effective date of the amended IAS 27 and of its consequential amendments was 1 July 2009, whereas the proposed amendments will not become effective until 1 July 2010. This would mean that entities applying the amended IAS 27 and its respective consequential amendments starting from 1 July 2009 as required at first would have to consider the consequential amendments retrospectively and account for respectively. Later on – when the currently proposed amendment becomes effective – they would have to change this and account for prospectively. We think that this is not really meaningful and therefore would appreciate an additional clarification that entities which had accounted for in respect of these consequential amendments retrospectively should be able to continue doing so, i.e. they should not be required to change the accounting from retrospective application of the consequential amendments to prospective application.

In addition to this, we question whether this amendment really represents an *amendment* in the narrow sense or rather an *editorial correction* as the respective Observer Note indicates that it was the original Board intention to require prospective application and that the lack of explicit transitional provisions for the adoption of the

information has not yet been published.

respective consequential amendments was simply an editorial oversight. If this is the case the amendments should be applicable as soon as the IASB had recovered the mistake and announced this, i.e. the time when the IASB Update, May 2009, had been published.

Proposed amendment to IAS 28 *Investment in Associates*

Partial use of fair value measurement of associates

We agree with the proposal to amend IAS 28 in order to clarify that different measurement bases can be applied to portions of an investment in an associate when part of the investment is designated at initial recognition as a fair value through profit or loss in accordance with the scope exception in paragraph 1 of IAS 28.

We also agree with the proposed effective date of 1 January 2011 and the transitional provisions for the amendment.

Proposed amendment to IAS 34 *Presentation of Financial Statements*

Significant events and transactions

Specific questions

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?

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?

We agree with the proposed amendments to IAS 34 that emphasise the IAS 34's disclosure principles and illustrate their application, which means that explanations of events and transactions and updates of annual report information in the notes to the interim report are only required when the events and transactions and the updated information, respectively, are *significant* to the understanding of the changes in the entity's financial position and performance since the end of the last annual reporting period. Consistent with this view we disagree with requiring particular disclosures to be made in interim financial statements.

In our view this is a clear and appropriate principle. Its application to all disclosures in interim reports and, therefore, also to disclosures regarding fair value measurements and reclassifications of financial instruments is appropriate. Moreover, we think the IAS 34's disclosure principles – which mean in our view in particular focussing on significant events and transactions – represent the most meaningful disclosure approach regarding interim reports in order to provide decision-useful information. It is clear that management's judgment is required in order to assess which events and transactions and updated information are significant to the understanding of the entity's financial position and performance. However, management's judgement is an essential element in financial reporting. We see no reason why for some disclosures in the interim report the IAS 34's disclosure principles are considered to be sufficient and for others (e.g. fair value measurement disclosures) they are not. We think the principles should apply to all disclosures and, therefore, we would like to stress again that we absolutely agree with the proposed amendment. In addition, we would appreciate it if the IASB also considers this in connection with other possible upcoming amendments to IAS 34.

We agree with the proposed effective date of 1 January 2011 and the transitional provisions for the amendments.

Proposed amendment to IAS 40 *Investment Property*

Change from fair value model to cost model

Specific question

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 with the proposed amendment because we do not consider this amendment appropriately addressed by the Annual Improvements project. We, therefore, would appreciate it if the IASB would undertake a separate project to address the measurement of investment property when its use is changed. The very fact that in rapid succession – i.e. in the first and again in the third cycle of the Annual Improvements project – the IASB proposed amendments that relate to the measurement of investment property whose use is changed, in our view, indicates that a more fundamental review of the respective requirements in IAS 40 may be useful in order to gain appropriate, comprehensive and sustainable measurement requirements for investment property whose use has been changed.

For further reasons for disagreeing with the proposed amendment to IAS 40, in particular for our concerns in respect of the fair value measurement of investment property under development and construction, respectively, we refer to our more detailed comments to the IAS 40 amendment in the first cycle of the Annual Improvements project regarding investment property under construction or development for future use as an investment property (comment letter of 4 January 2008).

Proposed amendment to IFRIC 13 *Customer Loyalty Programmes*

Determination of fair value

We agree with the proposed amendment that clarifies that the fair value of the awards for which the credits could be redeemed is not the same as the fair value of the award credits.

We also agree with the proposed effective date of 1 January 2011 and with the transitional provisions for the amendment.

However, we think that it is important to point out that an entity that has estimated the fair value of its award credits until now in a way that has not been in accordance with the now proposed clarification – because until now the entity has interpreted the requirements in IFRIC 13 in such a way that the fair value of the awards and the fair value of the award credits are equal – has not made an accounting error. Instead any change in measuring the fair value of award credits following the now proposed clarification to paragraphs AG2 and IE1 of IFRIC 13 should clearly be regarded as a change in accounting policies.