

Date  
19 November 2008

Le Président

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des Experts  
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Dear Mr. Enevoldsen,

**Re: EFRAG Draft Comment Letter on IASB Exposure Draft of proposed Improvements to IFRSs**

1. FEE (Fédération des Experts Comptables Européens - Federation of European Accountants) is pleased to submit its comments on the EFRAG Draft Comment Letter on the IASB Exposure Draft of proposed Improvements to IFRSs (the "ED").
2. Like EFRAG, we agree with most of the proposals in the ED. Where we find that there is need for further clarification or if we have specific comments, we have detailed these for each issue in the appendix to this letter.
3. The main concerns that we have regarding the proposals are summarised below, these include the same issues as the ones presented by EFRAG in the covering letter of its Draft Comment Letter. In addition, we note that EFRAG has not included in its covering letter its comments on issue 5. We suggest EFRAG includes the summary of its comments on issue 5 too in its covering letter.

**Issue 3: IFRS 8 *Operating Segments* - Disclosure of information about segment assets**

4. We agree with EFRAG that the proposed amendment should not be achieved by changing the Basis for Conclusions accompanying IFRS 8 only and that a change also needs to be made to the standard itself.
5. However, we recommend that the change be made to paragraph 23 of the standard and not to paragraph 25, as detailed by EFRAG in paragraph 16 of its Draft Comment Letter. It would be useful if EFRAG could clarify further what change they would recommend to the IASB. Our suggestion to amend paragraph 23 of IFRS 8 is included in paragraph 19 of this letter.

**Issue 4: IAS 7 *Statement of Cash Flows* - Classification of expenditures on unrecognised assets**

6. We believe that the amendment as currently presented does not include sufficient explanations to support the proposal that only expenditures that result in a recognised asset can be classified as a cash flow from investing activity. In principle, we would encourage the IASB not to amend IAS 7 by including additional rules. We recommend the IASB not to amend IAS 7 at this stage, as we believe the question of classification of cash-flows in the statement of cash-flows should be addressed in a more comprehensive way in the IASB's project on financial statement presentation.

**Issue 5: IAS 18 Revenue - Determining whether an entity is acting as a principal or as an agent**

7. We do not think that whether an entity has exposure to “the significant risks and rewards” associated with the sale of goods or the rendering of services should be presented as a more important feature than whether an entity has the “primary responsibility” for providing the goods or services to the customer or for fulfilling the order. The proposed amendment (i.e. adding example 21) to the appendix of IAS 18 appears to imply that “the significant risks and rewards” would come first and that the “primary responsibility” could then serve as an additional feature. We consider that the “primary responsibility” should be considered first to determining whether an entity is acting as a principal or as an agent. Our detailed comments on this issue are presented in paragraphs 22 to 29 of this letter.

**Issue 8: IAS 38 Intangible Assets - Measuring the fair value of an intangible asset acquired in a business combination**

8. Like EFRAG, we are not convinced that the proposed amendment represents a significant improvement to IAS 38. Hence, we agree with EFRAG in principle that the proposed amendment may not be necessary.

**Issue 12: IAS 39 Financial Instruments: Recognition and Measurement - Bifurcation of an embedded foreign currency derivative**

9. We agree with EFRAG that the current proposed wording will not establish the necessary clarity for determining whether a non-financial contract contains a separable embedded foreign currency derivative and consequently we question the need for the proposed amendment as part of the annual improvements project. Hence, we agree with EFRAG that it would be preferable to retain the current wording of in AG33 (d)(iii) of IAS 39 or to develop a more principles-based approach.
10. Our responses to the questions in the Invitation to comment Section of the ED are contained in the Appendix to this letter.

We would be pleased to discuss any aspect of this letter that you may wish to raise with us.

Yours sincerely,



Jacques Potdevin  
President

Ref: ACC/JP/SS-LF

**Appendix: Responses to the questions in the Invitation to comment - IASB Exposure Draft of proposed Improvements to IFRSs**

**Issue 1: IFRS 2 *Share-based Payment* - Scope of IFRS 2 and revised IFRS 3**

11. We agree with EFRAG and the proposed amendment to paragraph 5 of IFRS 2 to confirm that the contribution of a business on formation of a joint venture and common control transactions are not within the scope of IFRS 2 even though they do not meet the definition of a business combination in IFRS 3 *Business Combinations* (as revised in 2008).

**Issue 2: IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* - Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations**

12. We agree with EFRAG and the proposed amendment to IFRS 5 to clarify that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations and that disclosures in other IFRSs do not apply to such assets (or disposal groups) unless those IFRSs specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.
13. However, we think that with the proposed amendment IFRS 5 may still not be clear regarding the disclosures that would be required. In particular, there appears to be some contradiction between paragraph 5.5A and paragraph 5.BC4 of the ED, since the latter notes that there is no need to repeat the disclosures that are normally provided in the other notes about assets and liabilities that are not within the scope of the measurement requirements of IFRS 5 but are included within a disposal group, unless they better enable users to evaluate the financial effects of discontinued operations and disposals of non-current assets. It remains unclear which disclosures need to be made. We recommend that the Board further clarifies the circumstances under which the disclosures in the other notes would suffice. We suggest the inclusion of an illustrative example to improve the understandability and application of the requirements in this respect.

**Issue 3: IFRS 8 *Operating Segments* - Disclosure of information about segment assets**

14. We agree with EFRAG and the proposed amendment to the Basis for Conclusions accompanying IFRS 8 to clarify its view on the disclosure of segment assets.
15. We support EFRAG and the IASB on ensuring that IFRS and US GAAP are harmonised on this issue. The objective of the amendment to ensure that segment assets should be disclosed only when they are amongst the information presented to the Chief Operating Decision Maker (CODM) is consistent with the management approach in IFRS 8.

**Question to constituents**

EFRAG would particularly welcome comments from respondents as to whether or not disclosures about segment assets should only be provided if presented to the Chief Operating Decision Maker? Are there circumstances in which, although segment assets are both immaterial and perceived by the CODM to be unimportant for the management of the business, their disclosure would still provide useful information? What are those circumstances?

16. We think that disclosures about segment assets should only be provided if presented to the Chief Operating Decision Maker. See also our response in paragraph 15 of this letter.
17. We agree with EFRAG that the proposed amendment should not be achieved by changing the Basis for Conclusions accompanying IFRS 8 only and that a change also needs to be made to the standard itself.

**Appendix: Responses to the questions in the Invitation to comment - IASB Exposure Draft of proposed Improvements to IFRSs**

18. However, we recommend that the change be made to paragraph 23 of the standard and not paragraph 25, as detailed by EFRAG in paragraph 16 of its Draft Comment Letter. It would be useful if EFRAG could clarify further what change they would recommend to the IASB.
19. We suggest amending paragraph 23 of IFRS 8 to read “An entity shall report a measure of profit or loss, assets and liabilities for each reportable segment, if such amount is regularly provided to the chief operating decision maker.”

**Issue 4: IAS 7 Statement of Cash Flows - Classification of expenditures on unrecognised assets**

**Question to constituents**

This is an issue that EFRAG has debated at some length, with some members believing it is important that the cash flow classification follows the accounting treatment (so investment in unrecognised assets would be recognised as operating) so not to confuse users and others thinking it should reflect the economics (so investment in unrecognised assets would be recognised as investing) because users need to understand it is an investment in the future and not a normal operating cost. EFRAG’s understanding is that the proposed amendment is consistent with what the IASB is proposing in its discussion paper on Financial Statement Presentation. EFRAG would be very interested in hearing constituents’ views on which is the most useful way of presenting such information in the cash flow statement.

The IASB explains in the basis for conclusions that it believes that —only an expenditure that results in a recognised assets can be classified as a cash flow from investing activity. However, when dealing (in its 2007 Improvements to IFRSs project) with another issue involving the classification of cash flows relating to the purchase of assets (the amendment to IAS 7 – Assets held for rental to others), the IASB used a rather different rationale: —users of financial statements would consider these gains and the proceeds from an entity’s sale of goods in the course of its ordinary activities differently in their evaluation of an entity’s past results and their projections of future cash flows. EFRAG believes these arguments could be contradictory. It would particularly welcome constituents’ views on this issue.

20. We think that this is not an easy question to answer and that it would be preferable to have a full debate on this issue before amending again IAS 7.
21. In addition, we believe that the amendment as currently presented does not include sufficient explanations to support the proposal that only expenditures that result in a recognised asset can be classified as a cash flow from investing activity. In principle, we would encourage the IASB not to amend IAS 7 by including additional rules. We recommend the IASB not to amend IAS 7 at this stage, as we believe the question of classification of cash-flows in the statement of cash-flows should be addressed in a more comprehensive way in the IASB’s project on financial statement presentation.

**Issue 5: IAS 18 Revenue - Determining whether an entity is acting as a principal or as an agent**

22. We agree with EFRAG that there is uncertainty on this issue and additional guidance is welcome.
23. We believe that dealing with this matter by including material in an appendix is appropriate in this case since this is consistent with the approach in IAS 18.

**Appendix: Responses to the questions in the Invitation to comment - IASB Exposure Draft of proposed Improvements to IFRSs**

24. However, we are not convinced that practical difficulties encountered on this topic will be resolved by the proposed guidance as it does not establish sufficiently clearly the determinative principle to be used in making an assessment of the role played by an entity. More specifically, we do not think that whether an entity has exposure to “the significant risks and rewards” associated with the sale of goods or the rendering of services should be presented as determining by itself that the entity is acting as principal even if this feature may be indicative that this is the case. We consider that having the “primary responsibility” for providing the goods or services to the customer or for fulfilling the order is determinative that the entity is acting as a principal. The proposed amendment (i.e. adding example 21) to the appendix of IAS 18 appears to imply that “the significant risks and rewards” would be determinative and that the “primary responsibility” could then only serve as an additional factor of the role of principal.
25. We consider that the “primary responsibility” should be assessed to determine whether an entity is acting as a principal or as an agent. As part of this assessment, consideration is given to “the significant risks and rewards” as a feature to help determining whether an entity is acting as a principal or as an agent.
26. The proposed amendment specifies “an entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services” (page 26 of the ED). It also includes “one feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer”. We think it would be preferable to state that the features used to determine whether an entity is acting as principal should be reversed to determine whether an entity is acting as an agent.
27. In addition, whether the entity bears the customer’s credit risk is in our opinion less significant than the other features listed in the proposed example 21 to the appendix of IAS 18.
28. We note that the ED does not propose transition provisions and an effective date for the proposed amendment to the appendix of IAS 18. While we understand that the reason for this is likely to be that the amendment only affects an appendix to a standard, we also note that this may result in changes in practice for some entities. Therefore, we recommend that the IASB includes the transitional provisions and effective date for this amendment for the avoidance of doubt, for example in the basis for conclusions.

**The Board proposes to include in the Appendix of IAS 18 *Revenue* guidance on determining whether an entity is acting as a principal or as an agent. What indicators, if any, other than those considered by the Board should be included in the guidance proposed?**

29. We think that the ability (i) to be involved in determining the specifications or characteristics of the product/service or (ii) to select suppliers may serve as additional indicators to be considered in determining whether an entity is acting as a principal or as an agent. We recommend the IASB to include these indicators as additional features in the guidance proposed.

**Issue 6: IAS 36 *Impairment of Assets* - Unit of accounting for goodwill impairment**

30. We agree with EFRAG and the proposed amendment to paragraph 80(b) of IAS 36 to make it clear that the required unit for goodwill impairment in IAS 36 is not larger than the operating segment level as defined in paragraph 5 of IFRS 8 before the permitted aggregation.

**Question to constituents**

EFRAG would particularly welcome constituents’ views on whether the implementation of the proposed amendment would be difficult in respect of existing goodwill allocation.

**Appendix: Responses to the questions in the Invitation to comment - IASB Exposure Draft of proposed Improvements to IFRSs**

31. We think there may be a potential issue when an impairment has to be recorded as a result of a reallocation. In particular, we find that it is not clear how such an impairment would need to be accounted for, whether it should be in profit or loss or equity. It would be helpful if the IASB could clarify this issue further.
32. Furthermore, we note that an issue may arise if impairment testing was only performed up to a segment level, based on either the entity's primary or the entity's secondary reporting, and in accordance with IAS 14, as the respective entities would have to account for impairments in profit or loss also where there is no change in the entities' economic position. This may be confusing for users of financial statements rather than relevant.

**Issue 7: IAS 38 *Intangible Assets* - Additional consequential amendments arising from revised IFRS 3**

33. We agree with EFRAG and the proposed amendment to IAS 38 to make clear that, if an intangible asset is separable only with another asset, it must still be recognised separately from goodwill.
34. We agree with EFRAG that the same effective date should apply for all the amendments proposed in the ED (with earlier adoption permitted, as usual).

**Issue 8: IAS 38 *Intangible Assets* - Measuring the fair value of an intangible asset acquired in a business combination**

35. We note no significant issues arising with the proposed amendment to IAS 38 (to paragraph 40 to clarify that an entity can use multiples, and to paragraph 41 to make it clear that it is not intended to be restrictive).
36. However, like EFRAG we are not convinced that the proposed amendment represents a significant improvement to IAS 38. Hence, we agree with EFRAG in principle that the proposed amendment may not be necessary. We consider that such matter should be considered within the fair value measurement project.

**Issue 9: IAS 39 *Financial Instruments: Recognition and Measurement* - Scope exemption of business combination contracts**

37. We agree with EFRAG and IASB's conclusions that this scope exemption should apply only to binding contracts. Like EFRAG, we share the IASB's reasoning in reaching its conclusions.
38. Regarding the wording suggested by EFRAG in paragraph 44 of its Draft Comment Letter, we think that replacing "forward contract" by "binding contract" may better achieve the objective of the proposed amendment, and we see no need for the additional sentence suggested "while, for example, necessary regulatory and legal processes are being completed) obligating".
39. We do not find the reasoning by EFRAG in paragraph 45 of its Draft Comment Letter clear. We can understand the conclusion that the scope exemption is not needed for contracts to acquire an interest in an associate because a contract to acquire an associate is always an acquisition of equity instruments and a contract to acquire equity instruments at a future date meets the definition of a derivative in IAS 39 and should be accounted for as such. However, if business combinations can be structured as either an acquisition of net assets or as an acquisition of equity instruments, it could also be argued that in the case of a business combination structured as an acquisition of equity instruments at a future date, this would also meet the definition of a derivative in IAS 39 and should also be accounted for as such. We suggest this issue be clarified further.

**Appendix: Responses to the questions in the Invitation to comment - IASB Exposure Draft of proposed Improvements to IFRSs**

**Question to constituents**

EFRAG has not reached a conclusion on this second issue; ie on whether the scope exemption should be extended to a contract to purchase an associate. EFRAG would welcome views from constituents as to whether they believe the scope exemption in paragraph 2(g) should be extended to contracts to acquire an associate. An explanation of the reasoning behind the view stated would also be useful.

40. We have no strong views on this issue but we consider that it would be useful if the IASB would clarify the reasons for excluding investments in associates from the exception granted to the acquisition of a subsidiary.

**Issue 10: IAS 39 *Financial Instruments: Recognition and Measurement* - Application of the fair value option**

41. We agree with EFRAG and the proposed amendment to clarify that the fair value option in paragraph 11A of IAS 39 applies only to financial instruments within the scope of IAS 39 that contain embedded derivatives.

**Issue 11: IAS 39 *Financial Instruments: Recognition and Measurement* - Cash flow hedge accounting**

42. We agree with EFRAG and the proposed amendment to paragraphs 97 and 100 of IAS 39 to clarify that the gains or losses on the hedging instrument should be reclassified from equity to profit or loss in the period that the hedged forecast cash flows affect profit or loss. We agree with EFRAG that the wording of paragraph 97 needs to be improved.

**Question to constituents**

One possibility might be to amend the wording in paragraph 97 to state that the gains and losses on the hedging instrument should be reclassified from equity to profit or loss in the period that the hedged item affects profit or loss. Such wording seems to reflect the intention of the requirement on when to reclassify gains and losses on hedging instruments deferred in equity to profit or loss more generally. Do constituents think this amendment would work? Or do they think there could be difficulties with interpreting paragraph 97 if it was amended this way?

43. We think the proposed wording of “the hedged item” would work. We are not aware of any examples of contracts for which there could be difficulties arising with interpreting paragraph 97 if it was amended this way.

**Issue 12: IAS 39 *Financial Instruments: Recognition and Measurement* - Bifurcation of an embedded foreign currency derivative**

44. We agree with EFRAG that the current proposed wording will not establish the necessary clarity for determining whether a non-financial contract contains a separable embedded foreign currency derivative and consequently that the proposed amendment is not helpful. Hence, we agree with EFRAG that it would be preferable to retain the current wording of in AG33 (d)(iii) of IAS 39 or to develop a more principles-based approach.