

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London
United Kingdom
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Email: commentletters@ifrs.org

5 September 2012

Dear Mr Hoogervorst,

Exposure Draft ED 2012/1 – Annual improvements to IFRSs 2010—2012 cycle

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's (the IASB's) Exposure Draft of Proposed Annual Improvements to IFRSs 2010—2012 Cycle ('the exposure draft').

We continue to be of the view that the Annual Improvement Project is an efficient and effective means of dealing with isolated issues within IFRSs that are leading to divergent practice.

We generally support the proposed amendments in 2010-2012 cycle of annual improvements. However, for a number of proposed amendments, whilst we agree that there is an issue to be addressed, we believe there are more effective ways in which these could be resolved. In particular, the proposed amendments to IAS 1 and IAS 12 are interpretative issues that the Board should consider addressing primarily through the addition of examples rather than by introducing changes to the standards that may have unintended consequences and give rise to further interpretative issues. In addition, we do not believe that changes to, or clarifications of, requirements should be expressed only in a standard's basis of conclusions (as is the case for the exposure draft's proposals in respect of IFRS 13 and, to some extent, IFRS 2).

We would also suggest that the proposed amendments to IFRS 8 requiring disclosures about the basis of aggregation and to IAS 7 specifying the classification of payments of interest capitalised in accordance with IAS 23 should not be finalised at this time given the ongoing post-implementation review of IFRS 8 and IFRS Interpretations Committee project on the classification of various items in the statement of cash flows respectively.

Our detailed responses to the questions in the invitation to comment are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'V. Poole', written in a cursive style.

Veronica Poole
Global IFRS Leader - Technical

Appendix

Question 1

Proposed amendment to IFRS 2 *Share-based Payment*— Definition of vesting condition

We agree with the proposal to clarify the concept of ‘vesting conditions’, by providing definitions of the important terms ‘performance condition’ and ‘service condition’, as this should assist in consistent application of the Standard.

We would, however, make the following points of detail on the proposed amendment:

- The discussion in proposed paragraph BC5 refers only to ‘the entity’s’ operations and equity instruments. We recommend that the paragraph make it clear that, in the context of a share-based payment transaction among group entities, a performance condition could (in both the consolidated financial statements and the individual financial statements of the entities within the group that are party to the transaction) be defined by reference to the price (or value) of another group entity’s equity instruments or by the operations (or activities) of another group entity or of the group as a whole.
- The reference in that proposed paragraph to a target being ‘within the influence of’ the employee could be confusing as the profit or share price of a group of companies could be seen to be ‘remote from the influence of’ an employee of a particular subsidiary of the group. We recommend that it be made clear that, for the purposes of applying these requirements, it is assumed that each employee has influence over an entity’s (or group’s) operations and the value of its equity instruments.

In addition, we recommend that the explanations of what constitutes a performance condition included in proposed paragraphs BC5 and BC6 be included in the Standard itself, or its application guidance.

Proposed amendment to IFRS 3 *Business Combinations*— Accounting for contingent consideration in a business combination

We agree that the proposed amendment better aligns the requirement in IFRS 3 with the stated intention of the Standard for the classification and subsequent measurement of contingent consideration.

However, we believe that the approach taken in the draft amendments adds undue complexity to the accounting for contingent consideration classified as a financial liability by requiring some changes in its fair value to be recognised in other comprehensive income. Additionally, we question the conceptual basis for requiring a portion of the change in contingent consideration to be recognised in other comprehensive income as a liability for contingent consideration is frequently more akin to a free-standing derivative for which all changes in fair value are recognised in profit or loss under IFRS 9 than a debt instrument for which fair value measurement has been elected.

In our view, it would be simpler and clearer to scope out contingent consideration from IFRS 9 (and IAS 39) and deal with it comprehensively in IFRS 3 as that Standard has its own measurement logic to be applied to business combinations. Paragraph 58 could be modified to read as follows:

- ...(b) Other contingent consideration shall be measured at fair value at each reporting date in accordance with IFRS 13, with any resulting gain or loss recognised in profit or loss for the period.

Such a modification would render the proposed consequential amendment to IFRS 9 unnecessary and facilitate adoption of the amendment by entities that have not yet adopted IFRS 9.

We also note that the proposed amendments remove all explicit references to the classification and subsequent measurement of contingent consideration that does not meet the definition of a financial instrument. We suggest that the Board consider specifying that such items be classified as liabilities (for obligations to pay contingent consideration) or assets (for conditional rights to return consideration) and be subsequently measured, in the same way as contingent consideration that meets the definition of a financial instrument, at fair value through profit or loss.

The proposed amendments also make no reference to disclosure requirements, specifically those of IFRS 7. We would recommend that, whether the approach proposed in the exposure draft or the approach we propose above is adopted, an amendment be made to either IFRS 3 or IFRS 7 to specify which disclosures should be made in respect of contingent consideration that meets the definition of a financial instrument.

As a more general point, we think the Board should specifically consider the presentation of changes in the value of contingent consideration in its forthcoming post-implementation review of IFRS 3 in light of the ongoing project of the IFRS Interpretations Committee on the treatment of contingent consideration for the purchase of intangible assets and property, plant and equipment other than in a business combination.

Proposed amendment to IFRS 8 *Operating Segments*— i) Aggregation of operating segments and ii) Reconciliation of the total of the reportable segments' assets to the entity's assets

i) Aggregation of operating segments

We do not think these proposed disclosure requirements should be introduced ahead of the post-implementation review on IFRS 8 being completed. That review is likely to provide useful evidence on a range of disclosure issues resulting from the application of the Standard. Therefore, it would be premature to make changes of this nature to the Standard ahead of the results of the review.

ii) Reconciliation of the total of reportable segments' assets to the entity's assets

We support the proposed amendment as it corrects an oversight when the Standard was amended by a previous cycle of Annual Improvements.

Proposed amendment to IFRS 13 *Fair Value Measurement*— Short-term receivables and payables

As a general point, we do not believe that it is appropriate to introduce either requirements or exceptions to requirements via only the Basis of Conclusions to a standard.

Thus, whilst we support the Board's intention to clarify that it did not intend to change practice in the measurement of short-term receivables and payables when the consequential amendments flowing from IFRS 13 were made, in our view, the relevant paragraphs in IFRS 9 and IAS 39 should be reinstated to make it clear that short-term receivables and payables with no stated interest rate could be measured at invoice amounts without discounting.

We also think it is important that this proposed amendment is considered in finalising the Board's position on revenue recognition and other current projects to ensure that, where appropriate, consistent requirements are implemented.

Proposed amendment to IAS 1 *Presentation of Financial Statements*— Current/non-current classification of liabilities

In our view, the requirements of IAS 1 in respect of the criteria for classification of liabilities as current or non-current could be clearer. However, we do not believe that the proposed amendments to IAS 1 achieve this as we are concerned that they introduce further complexity by adding undefined terms such as “same lender” and “same or similar terms”. For example, it is unclear how the notion of a ‘same lender’ should be applied in the context of a syndicated loan facility.

We believe that any lack of clarity in these requirements would be better dealt with through application guidance instead of by the amendment proposed in the exposure draft. For instance, it would be helpful to give examples of liabilities frequently encountered in practice (for example, a commercial paper facility with a back-up provider) with an explanation of whether they qualify for classification as a non-current liability and an explanation of why that is, or is not, the case. We believe a more thorough consideration of the concept of current and non-current liabilities should be undertaken before making changes to the requirements of IAS 1 in this area.

Proposed amendment IAS 7 *Statement of Cash Flows*— Interest paid that is capitalised

We do not support this proposed amendment as the IFRS Interpretations Committee continues to consider a number of issues on classification in the statement of cash flows and in the March 2012 *IFRIC Update* expressed a preference for classification of cash flows in accordance with the nature of the activity to which they relate over classification based on the classification of the related or underlying item in the statement of financial position (as described in proposed paragraph 33A). We do not believe that amendments to IAS 7 should be made until the IFRS Interpretations Committee has completed its project, which should permit classification of cash flows to be addressed in a more comprehensive manner.

Proposed amendment IAS 12 *Income taxes*— Recognition of deferred tax assets for unrealised losses

We support the Board’s intention to clarify the requirements of IAS 12 in the complex area of recognising deferred tax assets for unrealised losses and agree with the analysis in the examples proposed for addition to the Standard.

We believe, however, that the proposed amendments to paragraph 29(a) could be expressed more clearly as follows:

- (a) it is probable that the entity will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward). In making this evaluation, an entity considers taxable profit:
 - (i) excluding the effects of the reversal of the deductible temporary difference (or utilisation of the unused tax loss) being assessed (to show the availability of future taxable profits from which the deductible temporary difference (or unused tax loss) can be deducted); and
 - (ii) excluding taxable amounts arising from deductible temporary differences that are expected to originate in future periods (as the deferred tax asset arising from these deductible temporary differences will itself require future taxable profit in order to be utilised); or...

In addition, we have the following points of detail on the proposed amendments to IAS 12:

- the example following proposed paragraph 30A may be more easily understood as two separate examples, one addressing a debt instrument and the other an item of property, plant and equipment;
- proposed paragraph BC8 is unclear as to whether the Board considers a situation where an entity holds a debt instrument with an unrealised loss for which a tax deduction has been taken to maturity (or at least until the unrealised loss reverses) qualifies as a tax planning opportunity as this would create taxable profit. We recognise that this paragraph is principally concerned with the situation where no tax deduction is available for the unrealised loss, but having raised another scenario it would be helpful to specify the Board's view on it; and
- the sources of taxable profit in proposed paragraph BC6 should include profits in a carry-back period.

**Proposed amendment IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*—
Revaluation method—proportionate restatement of accumulated depreciation**

We agree with the proposed amendment as it clarifies the two treatments of accumulated depreciation at the date of revaluation of an asset and that they are equally acceptable.

Proposed amendment IAS 24 *Related Party Disclosures*— key management personnel

We support the proposed amendment to clarify the disclosures relating to entities providing key management personnel services but believe that an explanation should be added of why proposed paragraph 9(b)(viii) appears to be inconsistent with paragraph 9(a)(iii) in referring only to the reporting entity rather than to the reporting entity or a parent of the reporting entity.

Proposed amendment IAS 36 *Impairment of Assets*— harmonisation of disclosures for value in use and fair value less costs of disposal

We agree with the proposed amendment to IAS 36 as it addresses inconsistencies in the disclosure requirements of that Standard.

Question 2

We agree with the proposed transitional provisions and effective dates for all the proposed amendments, although we note that our suggested revision to the proposed amendments to IFRS 3 would make it unnecessary to apply IFRS9 at the same time and may permit an effective date of the amendment earlier than 1 January 2015.