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Accounting Standards Board  
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WC2B 4HN

25 September 2008

Dear Madam

**ASB exposure draft: Improvements to financial reporting standards**

We are responding to your invitation to comment on the above exposure draft and set out below a summary of our views. Detailed responses to the specific questions asked in the invitation to comment are included in Appendix A to this letter.

We support the ASB's exposure draft of improvements to FRSs. It is appropriate for the ASB to reflect the IASB's improvements to standards that have been incorporated or have similar provisions to UK FRSs. In addition, it is sensible to use the opportunity to make improvements to other UK FRSs.

We support all of the improvements except for two. The proposed amendment to FRS 7 correctly identifies a contradiction between standards but we believe this should be resolved by removing the reference to FRS 25 and not by creating a new requirement that may be inconsistent with current practice and IFRS. The consequential amendment to FRS 20 arising from IFRS 3 (Revised) in section 3.6 of the exposure draft needs no application date as there are no effective changes to the standard and the proposed consequential amendment to the basis for conclusions does not reflect current UK GAAP where merger accounting is used and consideration is not measured at fair value.

If you have any questions or comments about this response, please contact Gail Tucker (0117 923 4230) or Michael Gaull (020 7213 5671).

Yours faithfully

PricewaterhouseCoopers LLP

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## Appendix A – Responses to specific questions

**Q 1 – The proposals set out in this FRED implement the IASB proposals arising from its annual improvements project; consequential amendments from new or amended IFRS and editorial corrections to IFRS. In addition section 2 of this FRED includes proposed amendments which have been identified to apply to UK FRS only. Do you agree with the ASB proposals for implementation of these changes to UK FRS? Do you also agree with the changes proposed to UK in section 2 of this FRED? If not please explain why not.**

We agree with all of the proposals except for the following:

### ***2.2 Amendment to FRS 7 'Fair values in acquisition accounting'***

We agree that the ASB should delete paragraph 82 to remove the inconsistency with FRS 25. However, we do not recommend the inclusion of the proposed new paragraph. We note that current IFRS scopes contingent consideration out of IAS 39 and that IFRS 3 does not state how it should be classified. UK GAAP contains, as the ASB has noted, a contradictory requirement in that contingent consideration is scoped into FRS 25 by FRS 7 but is then scoped out by FRS 25 itself. The proposed amendment should be to delete this cross reference and remove paragraph 82.

The ASB's proposal will result in items that are clearly debt (a variable number of shares to be issued to a fixed value) to be classified as equity, which would move against the direction of convergence with IFRS. However since current IFRS does not scope contingent consideration in to IAS 32 we equally do not recommend that it is scoped into FRS 25. This will create additional measurement complications for UK preparers and impose conditions that do not exist for IFRS preparers. Therefore our recommendation is that by simply removing the paragraph reference to FRS 25, FRS 7 will be consistent with FRS 25 and also consistent with current IFRS guidance.

### ***3.6 Amendments arising from IFRS 3 'Business combinations' (Revised January 2008)***

We disagree with the proposed amendments in two regards.

There is no impact from the proposed amendment to paragraph 5 of FRS 20 to the remainder of FRS 20, because all of the text inserted into paragraph 5 has been struck through. As a result we do not believe an implementation date should be included when there is no amendment to this standard. If the Board wish to include IFRS 2 paragraph 61 within the UK standard, we propose that this paragraph should also be struck through in its entirety so as not to confuse the reader.

Secondly, we do not agree with the amendment to paragraph 84 of the Basis for Conclusions. While the revised text is factually correct under IFRS, we do not believe it accurately reflects the current position under UK GAAP. The reason for this is that when merger accounting under FRS 6 is applied, shares are often recorded at nominal value and the combination is recorded at the carrying value of the acquiree's net assets. As such, consideration transferred in a business combination is not always fair valued, but on a business acquisition it is. Acquisitions and mergers are different types of business combination under UK GAAP and the statement about fair values in

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this paragraph is only correct in the context of acquisitions. As such, we believe that the original wording in FRS 20 paragraph BC84 should remain.

#### **4.1 Editorial corrections**

There are some minor errors in section 4 as follows:

|                 |                               |  |
|-----------------|-------------------------------|--|
| FRS 26 (IAS 39) | in paragraph AG46             | Paragraphs 4-8-4-9 should be paragraphs 48 -49                                 |
| FRS 26          | Appendix B, line above para 1 | There is no Appendix B in FRS 26. We are not sure what correction is intended. |

#### **Other amendments made by the IASB**

The IASB also amended IAS 29. Most of the amendments arose from the revised IAS 1 but we believe that the amendment to paragraph 14, replacing 'market' with 'fair' value is separate and could be made to the UK standard, FRS 24, *(IAS 29) Financial reporting in hyperinflationary economies* as part of this improvements project.

We note that the IASB amended IAS 36 to require similar disclosures by entities using discounted cash flows to calculate fair value less costs to sell to those using value in use. We believe that the ASB should consider, as part of a future improvements project, whether additional disclosures should be added to FRS 11, *Impairment of fixed assets and goodwill*, in particular those required by paragraphs 69, 72 and 73.

**Q2 – The ASB considers by combining its proposals into one FRED that this is a cost effective approach for implementation and that the benefits outweigh the costs involved. Do you agree? If not, why not? It would be helpful if any significant costs that would arise on implementation of the proposals could be identified and quantified.**

We agree that combining the proposals into one FRED is a cost effective approach.