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CRUF response regarding the Annual Improvements to IFRSs 2010-2012 Cycle

We are pleased to have the opportunity to comment on the Boards' Exposure Draft *Annual Improvements to IFRSs 2010-2012 Cycle*.

The CRUF has not previously responded to an annual improvements consultation but we felt that this year there are more substantive proposals included within the document – a step which we believe is positive although we recognise there is a fine line to be drawn between this and a need for a full standard approval process. We would welcome the IFRS Board using the annual improvements mechanism to make limited incremental improvements to standards which go beyond addressing minimal issues within the existing rules.

Having said that, we respond only briefly on each relevant point, as set out below:

IFRS 2 – amended definition of 'vesting conditions'
We support the proposed amended definitions – though we would expect some flexibility of understanding around circumstances where a performance criterion is measured over a period marginally longer than the explicit or implicit service condition (as might be implied in conditions which measure performance relative to a market following the announcement of results, for example) and we would also note that the accounting treatment needs to follow the remuneration decision where an employee fails to fulfil a service condition (as illness or other

reasons may mean the service condition is failed but the remuneration award continues to be valid). We would welcome earlier implementation.

IFRS 3 – contingent consideration
CRUF participants are involved mainly in equity analysis. We typically do not differentiate between differing forms of contingent consideration but see it as a financial liability in most cases, usually including it as part of the enterprise value of the business along with debt, pension deficits and other non-operating liabilities. We would typically not include revisions to contingent consideration in our assessment of underlying earnings but continuously review our assessment of the liability when establishing a value for the equity. The proposals here are not consistent with our approach and thus of limited relevance. We would welcome this topic being considered within a general review of the definition of equity and a conceptual basis for Other Comprehensive Income.

IFRS 8 – disclosures around aggregation decision
We do not support the proposed amendments. Users rely on segmental reporting to provide a clear insight into the business model and effective operations of companies in which they invest. This usually forms the main basis for our forward-looking forecasts. We therefore believe that the basis of aggregation needs to be business-led (effectively meaning that this should be done on the bases laid out for disclosure under paragraph 22(a)). Whilst we have seen some aggregation of segments that we consider to be unhelpful, we do not favour economic characteristics, as described, determining the aggregation. We would strongly prefer the business model to drive the way in which segments are determined. As an example we would want to see manufacturing split from services or fixed line split from mobile telephony even if the business sees them as part of the same segment because the drivers of the business are often different. We recognise that this may require wider amendments to the IFRS than just not making the currently proposed amendments.

IFRS 13 – immaterial discounting of short-term receivables
We support the proposed amendment, welcoming steps which make clear that reporting to the users of accounts must focus on materiality and should not involve additional financial burdens on companies for no substantive benefit.

IAS 1 – definition of current liabilities
We support the proposed amendment if it is restricted to deeming non-current liabilities where the renewal is entirely at the discretion of the reporting company and the renewal is "with the same lender on the same terms". We do not believe that there should be scope for classifying liabilities as non-current where the

renewal can only be similar terms as this may in practice lead to a significant change in the nature of the borrower's debt profile within the current period horizon. The Board makes the distinction between 'the same or similar terms' and 'substantially different terms'; we believe that the more appropriate distinction is between 'substantially the same terms' and 'similar or different terms'.

IAS 7 – classification of capitalised interest
We do not believe that the proposed amendment is necessary. We believe that rather than this classification, a reconciliation of the cash flow statement with the income statement charge would add more value for users. Users often struggle to understand exactly how the income statement financial items relate to the liabilities on the balance sheet and cash expenditure including the unwinding of the discount rate on long-term liabilities in addition to capitalised interest. We are not convinced that a split as proposed would help solve this bigger issue.

IAS 12 – deferred tax assets for unrealised losses
We welcome and support the proposed clarification.

IAS 16 and IAS 38 – revaluation; restatement of accumulated depreciation
We support the proposed amendments.

IAS 24 – management services through a management entity
We welcome and support the proposed amendments but we do believe that any payments to a management entity need to be disaggregated – into payments for salaries, payments for bonuses, payments for post-employment benefits, other long-term benefits, termination benefits and any share-based payments – to the extent that any such distinctions are apparent to the reporting entity.

IAS 36 – harmonisation of disclosures
We welcome and support the proposed clarification.

About the Corporate Reporting Users' Forum (CRUF)
The CRUF came together in 2005 as a discussion forum to help its participants in their approach to the debate on current and future corporate reporting requirements. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters such as the IASB and FASB.

CRUF participants come from all around the world, including individuals from both buy- and sell-side institutions, and from both equity and fixed income markets.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. It does not seek to achieve consensus views, though at times some or all of its participants will agree to make joint representations to standard setters or to the media. It would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative.

We sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum (www.CRUF.com) and not as representatives of our respective organizations. The views expressed are those of individual CRUF participants and do not necessarily reflect the views of the respective organisations where we are employed.

The participants in the Forum that have specifically endorsed this response are listed below.

Yours sincerely

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