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International Accounting Standards Board
30 Cannon Street
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United Kingdom

Subject: IASB Exposure Draft ED/2012/1 Annual Improvements to IFRSs 2010–2012 Cycle (Proposed amendments to International Financial Reporting Standards)

Dear Sir, Madam,

We appreciate the opportunity to provide our comments to the Exposure Draft and so to contribute into development of high quality International Financial Reporting Standards.

The Institute of Professional Accountants of Russia (IPAR) is a largest professional body for accountants in Russia. We strongly support the processes of dissemination of the IFRS and the efforts on international convergence. In our work with IFRS we mainly focus on the task of good understanding of norms of IFRS and sharing of appropriate application practice by the means of educating the accountants that, we believe, is crucial for the quality of financial statements on IFRS, especially in the emerging economies.

Below, we are pleased to provide our comments on the Exposure Draft questions raised by the Board.

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?*

Except for the comments and concerns notes below we agree with the proposed amendments and consider them logical, consistent with general concepts of IFRS and useful.

IAS 1 Presentation of Financial Statements (Current/non-current classification of liabilities)

We do not agree with the proposed amendment to the criterion for classification of liabilities as current or non-current. We suppose that it substantially modifies the current understanding of the approach to the presentation of financial statements by adding more formality. Instead of reflecting the current arrangements, economic possibilities and the entity's intentions for refinancing a liability, the preparer will have to consider formal terms of liabilities to identify the «same lender and similar terms».

Actually we think that requirements for recognition and derecognition of financial liabilities set in paragraph 3.2.2 of IFRS 9 and paragraph 40 of IAS 39 do not relate to their presentation in financial statements. If an entity have a current arrangement for refinancing one short-term loan by another long-term loan even with different terms and different lender, it will follow the requirements of IFRS 9 and IAS 39 for recognition of the new liability and extinguishment of the original one. But from the point of view of fair presentation of financial position and reflecting the entity's actual liquidity it will be misleading for users to classify this liability as current. According to the existing wording of the paragraph 73 of IAS 1, this liability should be presented as non-current.

Example: An entity issued long-term bonds with a non-revocable offer to repurchase them within 12 months. At the same time it made a binding arrangement with bank (different lender) that the bank will refinance the obligation for long-term period (under different terms) in case of early redemption. According to the proposed amendments, this obligation should be presented as current. But we think it will not adequately reflect the timing of expected cash flows.

So we propose not to amend the paragraph 73 of IAS 1 with words «same lender and similar terms».

IAS 7 Statement of Cash Flows (Interest paid that is capitalised)

We understand the logic of the proposed amendment. And we agree that ideally the payments of interests (capitalised under IAS 23) should be classified in a Statement of Cash Flows in accordance with classification of underlying asset. From this point of view it would be possible to include additional requirement that the receipts of interests (and other investment income) from temporary investment of borrowings, that should be netted under paragraph 13 of IAS 23, should also be netted in a Statement of Cash Flows (when classified as cash flows from investing activities).

But at the same time we see how difficult it could be in practice to classify the payments of interests with regard to whether they are capitalised (and to what asset) because of double shift in time (that could be even opposite):

- firstly, the amount of total interests costs incurred for the period could differ from amount capitalised for the same period (especially in such difficult cases as notes in paragraph 11 of IAS 23: centrally co-ordinated financing activity within the group, use a range of debt instruments at varying interest rates, use of loans denominated in or linked to foreign currencies); and
- secondly, the period of accruing of borrowing costs could differ from the period of payments.

So we think it impracticable to set such an obligatory requirement. Instead we propose to include a soft requirement akin to that set for the payments of income tax – i.e. when it is practicable to identify the payments of interests with capitalized borrowing costs in accordance with IAS 23 they shall be classified in accordance with the classification of the underlying asset to which those payments were capitalised.

IAS 24 Related Party Disclosures (Key management personnel)

Although we consider the proposed amendment reasonable, we should rise concern that it may create a gap and a potential for abuse and hide the key management personal remuneration by creating arrangements involving 'the management entity'.

We understand that:

- if a reporting entity hire key management personnel from a third-party 'the management entity' then this key management personnel is not of the reporting entity and there is no sense to separately disclose its remuneration;

– if ‘the management entity’ is ultimately controlled by the reporting entity or is a SPE in accordance with IFRS 10, then at the consolidated level the reporting entity should separately disclose the remuneration of key management personnel of ‘the management entity’.

But there is a doubt that there will not be any third variant then the key management personal remuneration could be hidden by creating special arrangements with ‘the management entity’ that will be difficult to discover in practice.

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

We agree with the proposed transitional provisions and effective dates.

Thank you for considering our comments and, please, do not hesitate to contact us will you have any questions.

Yours faithfully,

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