

Rådet för finansiell rapportering

The Swedish Financial Reporting Board

RFR-rs 2011:09

International Accounting Standards Board
30 Cannon Street
London EC4M 6 XH
United Kingdom

Dear Sirs,

Re: IASB Exposure Draft ED/2011/2 Improvements to IFRSs

The Swedish Financial Reporting Board is responding to your invitation to comment on the ED Improvements to IFRSs.

In summary we have the following views:

- We are concerned that the proposed amendment of IAS 32 Financial Instruments: Presentation, regarding the treatment of tax consequences on dividends, will not fully resolve the inconsistency. Therefore we urge the IASB to make consequential amendments to IAS 12 Income Taxes.
- The proposed wording in IAS 16 Property, plant and equipment can be interpreted to have a wider meaning than intended.

Below you find our detailed comments:

Amendments to IAS 32 Financial Instruments: Presentation

We support the IASBs view that tax consequences related to dividend to holders of equity instruments are related to prior year's taxable income rather than due to the dividend transaction. However, we have two concerns regarding the proposed change.

Our first concern is that there is not just an inconsistency between IAS 12 Income Taxes and IAS 32 Financial Instruments: Presentation. There is also a similar inconsistency within IAS 12. Paragraph 52B in IAS 12 states that income tax related to dividends should be recognized in profit or loss. However, if the tax arises from circumstances described in paragraph 58 (a) and (b) of IAS 12, then it should be recorded outside profit or loss. As a dividend is recognized in equity we believe that paragraph 58 (a) through paragraph 61 of IAS 12 can be interpreted to require that the income tax consequences triggered by the dividend transaction should also be recognized in equity. We therefore question if the proposed revision of IAS 32 will lead to increased clarity.

Secondly, we believe that paragraph 52A should also be changed as the current wording is the main cause of diverse practice. Paragraph 52A requires that current and



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deferred tax should be based on the undistributed rate. However, at the same time paragraph 52B states that income tax consequences on dividends are primarily related to prior year's income. A company which has a distribution policy will consistently misstate the period's income tax as it cannot recognize the tax effect until the decision to make the distribution is made. The IASB proposed a change in the ED Income Taxes to change the approach and accept that the measurement of income tax should include the effect of expected future distributions. In our view it is obvious that this should be implemented when considering the proposed change in the ED

IAS 16 Property, Plant and Equipment

The proposed wording states that servicing equipment qualifies as property, plant and equipment if the entity expects to use it during more than one period. We believe that this wording can be interpreted to have a wider meaning, for example for companies that have a service organization for the benefit of its customers. Such companies often have spare-parts and servicing equipment in stock for more than one period for the potential use in customer assets.

Therefore, the wording should make it clear that it is only spare-parts, stand-by equipment and servicing equipment that may be used more than one period in the entity's own property, plant and equipment that should be classified as PPE.

Spare-parts, stand-by equipment and servicing equipment which are used in the entity's service organization for the benefit of its customers fulfils the definition of inventory i.e. used in the ordinary course of business and this distinction has to be clear.

As an additional clarification, "annual" should be inserted before "period" in paragraph 8 on page 22 and in BC 1 on page 23 of the ED.

IFRS 1 First-time adoption of IFRS

We support the proposed amendments to IFRS 1. Also, in order to avoid future recurring changes, we believe that a comprehensive review of the standard should be undertaken to identify additional material amendments.

If you have any questions concerning our comments please address our Executive member Carl-Eric Bohlin by e-mail to: carl-eric.bohlin@radetforfinansiellrapportering.se

Stockholm, 13 September 2011

Yours sincerely


Anders Ullberg
Chairman