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## **Summary and analysis of the comment letters received**

### **Introduction and Objective**

- 1 The purpose of this paper is to present to EFRAG TEG a summary and analysis of the comments received from respondents in response to EFRAG's draft endorsement advice on *Annual Improvements to IFRS Standards 2015 – 2017 Cycle*, hereafter 'the Amendments'.
- 2 Based on the comments received, the EFRAG Secretariat has not developed a revised draft EFRAG final endorsement advice. A final draft endorsement advice is presented as Agenda Paper 11-03.

### **Structure of the paper**

- 3 This comment letter analysis is structured as follows:
  - (a) Background;
  - (b) Main positions in EFRAG's draft endorsement advice;
  - (c) Summary of respondents' views;
  - (d) Main positions in EFRAG Secretariat's proposed final endorsement advice;
  - (e) Appendix 1 – list of respondents.

### **Background**

- 4 The IASB has adopted an annual process to deal with non-urgent, but necessary, amendments to IFRS Standards (the annual improvements process). Issues dealt with in this process arise from matters raised by the IFRS Interpretations Committee and suggestions from staff or practitioners, and focus on areas of inconsistency in IFRS Standards or where clarification of wording is required.
- 5 The IASB published the Amendments on 12 December 2017. The related Exposure Drafts were issued on 12 January 2017 (ED/2017/1) and on 28 June 2016 (ED/2016/1). EFRAG provided its comment letters on the Exposure Drafts on 19 April 2017, and on 9 November 2016, respectively.
- 6 The Amendments comprise the amendments to four Standards, as follows:

IFRS 3 <i>Business Combinations</i>	clarifies that a transaction of obtaining control of a business that is a joint operation is a business combination achieved in stages and the acquirer shall apply the relevant requirements of IFRS 3, including remeasuring the entire previously held interest in the joint operation.
IFRS 11 <i>Joint Arrangements</i>	clarifies that when a party, that participates in but does not have joint control over a joint operation in which the activity constitutes a business, obtains joint control over that joint

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	operation, the previously held interests are not remeasured.
IAS 12 <i>Income Taxes</i>	clarifies that income tax consequences of dividends are recognised according to where the past transactions or events that generated distributable profits have been recognised.
IAS 23 <i>Borrowing Costs</i>	clarifies that if a specific borrowing remains outstanding after substantially all the activities necessary to prepare that asset for its intended use or sale are complete, it becomes part of the funds an entity borrows generally.

- 7 EFRAG issued a draft endorsement advice and a separate invitation to comment requesting comments by 26 February 2018.

### Main positions in EFRAG's draft endorsement advice

- 8 EFRAG's preliminary conclusion was that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship and lead to sufficiently prudent accounting. EFRAG also assessed that the Amendments do not create any distortion in their interaction with other IFRS Standards. EFRAG also concluded that all necessary disclosures are required. Therefore, EFRAG concluded that the Amendments are not contrary to the true and fair view principle.

### Summary of respondents' views

- 9 EFRAG received nine comments representing four national standard-setters, four preparers, and one professional body.
- 10 The EFRAG Secretariat has considered all the comments received. Eight respondents agreed with EFRAG's views included in the draft endorsement advice.
- 11 One respondent disagreed with EFRAG's conclusions regarding endorsement of the IAS 23 related amendments and provided the reasoning that
- Taking into account a borrowing, made specifically for the purpose of obtaining a qualifying asset, after substantially all the activities necessary to prepare that asset for its intended use or sale are complete, for the purpose of calculating the capitalisation rate, using the weighted average method as described in IAS 23, is contrary to the principle of true and fair view.*
- 12 EFRAG Secretariat considered this response. However, in our opinion, the Amendments clarify what seems to be already in the spirit of the IAS 23. We note that IFRIC staff initially proposed to deal with the issue in an agenda rejection).
- 13 Moreover, the Amendments affect only those cases where an entity does not repay the specific borrowing and has other qualifying assets under development for which it has no specific borrowings. Therefore, in our opinion, the scope of application may not be extensive.
- 14 Finally, after the asset is developed and ready for its intended use, the situation is economically similar to having an asset-secured loan and, therefore, both should be accounted for in a similar way.
- 15 Consequently, we have not revised the conclusion. However, we clarified the wording of the draft final endorsement advice.
- 16 A list of the respondents is provided in Appendix 1.

**Main positions in EFRAG's *proposed final* endorsement advice**

- 17 Based on the comments received and the above analysis, EFRAG Secretariat does not propose any change to the draft endorsement advice.

**Question to EFRAG TEG**

- 18 Do EFRAG TEG members agree to recommend to the EFRAG Board the final endorsement advice, proposed by EFRAG Secretariat?

## Appendix 1 – List of respondents

1 Below is a list of the respondents to EFRAG’s draft endorsement advice on *Annual Improvements to IFRS Standards 2015 – 2017 Cycle*.

<b>Name of constituent</b>	<b>Country</b>	<b>Type/Category</b>
Uniper SE	Germany	Preparer
The Institute of Chartered Accountants in England and Wales	UK	Professional body
Financial Reporting Council	UK	Regulator and standard setter
Comissão de Normalização Contabilística	Portugal	Standard setter
Instituto de Contabilidad y Auditoría de Cuentas	Spain	Standard setter
Evonik Industries AG	Germany	Preparer
Munich RE	Germany	Preparer
BMW Group	Germany	Prepare
Organismo Italiano di Contabilità	Italy	Standard setter

2 Below is a summary of respondents by country and by type.

<b>Country</b>	<b>Number of constituents</b>	<b>Type of constituent</b>	<b>Number of constituents</b>
Germany	4	National Standard Setters	4
Italy	1	Preparers	4
Portugal	1	Professional body	1
Spain	1	<b>Total</b>	<b>9</b>
UK	2		
<b>Total</b>	<b>9</b>		