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Direct dial: (+31) 20 301 0391
Date: 30 March 2017
Re: Comment on draft comment letter on ED/2017/1 Annual Improvements to IFRS Standards 2015-2017 Cycle

Dear members of EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond to your draft comment letter on the Exposure Draft 2017/1 *Annual Improvements to IFRS Standards 2015-2017 Cycle* (the 'ED').

Your draft comment letter is a good summary of the main changes proposed. We agree with the proposed amendment to IAS 23 *Borrowing cost – Borrowing cost eligible for capitalisation* and IAS 12 *Income Taxes: Income tax consequences of payments of financial instruments classified as equity.*

However, we have the following comments in respect of the proposed amendments to IAS 28.

IAS 28 Investments in Associates and Joint Ventures: Long-term interests in an associate or joint venture
The proposed amendments state that an entity also applies IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied, and that these include financial instruments that are long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture with a reference to paragraph 38. Paragraph 38 of IAS 28 states that interests in an associate or joint venture subject to the allocation of losses are: (a) investments that an entity accounts for using the equity method; and (b) long-term interests. Paragraph 38 also states that the interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture.

It is still not clear to the DASB whether long-term interests in an associate or a joint venture need to be assessed for impairment based on IFRS 9 or IAS 28. The proposed amendments together with the (not amended) wording of paragraphs 40-42 of IAS 28 do not make clear in all circumstances what is meant by ‘the investment’.

We believe that long-term interests – such as a loans – that form part of the net investment in an associate or joint venture should be assessed for impairment based on IAS 28 guidance and long term interest that do not form part of the investment should be assessed for impairment based on IFRS 9. This should be clearly described in IAS 28 including how to allocate the impairment losses to the equity method investments and the other investments that form part of the net investment.

Finally, we believe that the amendments to IAS 28 should be effective together with the introduction of IFRS 9, because of the benefits from aligning the effective date of the amendment with the effective date of IFRS 9.

Please find our responses to the specific questions to constituent in the appendix of this letter.

Yours sincerely,

prof. dr. Peter Sampers
Chairman Dutch Accounting Standards Board

Appendix – Responses to questions to constituents

<u>IAS 12 Income Taxes: Income tax consequences of payments of financial instruments classified as equity</u>

Questions to EFRAG's constituents

15 Do you agree with EFRAG's view that pursuing the narrow-scope amendment to IAS 12, without providing some guidance on the key issue of determining whether payments on financial instruments that are classified as equity are dividends, may not lead to a significant improvement in consistent application compared to the current situation? If not, why?

Answer: DASB believes when this issue is applicable that without providing some guidance on this key issue the Amendment may not lead to a significant improvement in consistent application compared to the current situation.

Questions to EFRAG's constituents

16 Have you encountered difficulties in practice in determining whether payments on financial instruments that are classified as equity are dividends or not? If yes, can you provide some examples?

Answer: We don't have encountered such difficulties in practice in The Netherlands relating to accounting for income taxes. In The Netherlands there are no differences in tax rates or other differences of this nature and for Dutch international companies the issue does not appear to be a significant concern..

<u>IAS 28 Investments in Associates and Joint Ventures: Long-term interests in an associate or joint venture</u>

Questions to EFRAG's constituents

47 Do you agree with EFRAG's view that the IASB should include an example or guidance illustrating the proposed amendment, as described in paragraph 41 above? If not, why, and what alternative do you propose?

Answer: DASB in general prefers principle based accounting standards. But for this specific topic we believe that guidance will contribute when finalizing the amendments.

Questions to EFRAG's constituents

48 Do you think it would be usual in practice that an entity would recognise an impairment loss under IAS 28/IAS 36 relating to long-term interests, if losses have been allocated to those long-term interests applying the loss allocation requirements in IAS 28?

Answer: Given the concerns addressed in our cover letter about the lack of clarity in how to apply the amendments, we believe that the IASB should improve the guidance when finalising its amendments.

Questions to EFRAG's constituents

49 Do you foresee any issues other than those already identified in applying the proposed amendment to IAS 28 to subsidiaries, associates and joint ventures measured in accordance with the equity method in separate financial statements? If so, please explain what those issues are.

Answer: Given the concerns addressed in our cover letter about the lack of clarity in how to apply the amendments, we believe that the IASB should improve the guidance when finalising its amendments.

Questions to EFRAG's constituents

50 Do you agree with EFRAG's suggestion that the IASB should consider an effective date of 1 January 2019, with earlier application permitted?

Answer: No, DASB believes that the amendment should be effective together with the introduction of IFRS 9, because of having the benefits from aligning the effective date of the amendment with the effective date of IFRS 9.