# ICAEW REPRESENTATION 41/17

**Invitation to comment on EFRAG's Draft Comment Letter on the IASB's ED/2017/1 Annual Improvements to IFRS Standards 2015-2017 Cycle**

ICAEW welcomes the opportunity to comment on *EFRAG's Draft Comment Letter on the IASB's ED/2017/1 Annual Improvements to IFRS Standards 2015-2017 Cycle* published by EFRAG in February 2017, a copy of which is available from this link.

This response of 31 March 2017 has been prepared on behalf of ICAEW by its Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

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## MAJOR POINTS

1. ICAEW has reviewed EFRAG's Draft Comment Letter on the IASB's ED/2017/1 Annual Improvements to IFRS Standards 2015-2017 Cycle and agree with its conclusions. The IASB's amendments should be endorsed as soon as possible.

2. Our response to the IASB's *Annual Improvements to IFRS Standards 2015–2017 Cycle* exposure draft is attached as an appendix.

## RESPONSE TO SPECIFIC QUESTIONS

### Proposed amendment to IAS 12

Question 1. Do you agree with the IASB's proposal to amend IAS 12 in the manner described in the Exposure Draft? If not, why, and what alternative do you propose?

3. We support the proposed amendments to IAS 12.

Question 2. 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?

4. We disagree on the basis that providing guidance on the classification of dividends is a legal issue and, as such, the IASB is not an appropriate body to comment. This issue effects many jurisdictions and providing guidance suitable for every situation would be impractical.

Question 3. 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?

5. No. We have clear legal and accounting guidance in the UK on this issue.

### Proposed amendment to IAS 23

Question 4. Do you agree with the IASB's proposal to amend IAS 23 in the manner described in the Exposure Draft? If not, why, and what alternative do you propose?

6. We support the proposed amendments to IAS 23.

### Proposed amendment to IAS 28

Question 5. Do you agree with the IASB's proposal to amend IAS 28 in the manner described in the Exposure Draft? If not, why, and what alternative do you propose?

7. We support the proposed amendments to IAS 28. However, we believe that the relationship between IAS 28 and IFRS 9 warrants further consideration; please see our response to the IASB's exposure draft, attached as an appendix, for further details.

### Effective date of the proposed amendment to IAS 28

Question 6. The IASB is proposing an effective date of 1 January 2018 for the proposed amendment to IAS 28. The reasons for that proposal are explained in paragraphs BC7-BC9 of the Basis for Conclusions on the proposed amendment to IAS 28. Do you agree with the effective date for the proposed amendment? If not, why, and what alternative do you propose?

8. Although we note the short time period involved, we agree with the proposed effective date given the alignment to the effective date of IFRS 9.

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Question 7. 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?

9. We disagree, as there are many sources of guidance currently available and we would not support expanding the IASB's standards to include guidance, except in rare circumstances.

Question 8. 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?

10. Please refer to our response to the IASB, included as an appendix.

Question 9. 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.

11. Please refer to our response to the IASB, included as an appendix.

Question 10. Do you agree with EFRAG's suggestion that the IASB should consider an effective date of 1 January 2019, with earlier application permitted?

12. The proposed effective date of 1 January 2018 is regrettable but understandable given this date allows for the alignment of these proposed changes to IAS 28 with the effective date of IFRS 9. Therefore, we disagree with EFRAG's suggestion that the IASB should consider any changes to the effective date.

# APPENDIX- ICAEW RESPONSE TO THE IASB

## Annual Improvements to IFRS Standards 2015–2017 Cycle

ICAEW welcomes the opportunity to comment on the *Annual Improvements to IFRS Standards 2015–2017 Cycle* exposure draft published by the IASB in January 2017, a copy of which is available from this link.

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## MAJOR POINTS

1. We broadly agree with the changes proposed in the exposure draft and support the grouping together of minor amendments into a single annual exercise.

## RESPONSES TO SPECIFIC QUESTIONS

**Question 1—Proposed amendments (please answer individually for each proposed amendment)**

**Do you agree with the Board's proposal to amend the Standards in the manner described in the Exposure Draft? If not, why, and what alternative do you propose?**

2. We support the proposed amendments to IAS 12, amending IAS 12 to clarify that an entity should account for all income tax consequences of dividends in the same way, regardless of how the tax arises.

3. We support the proposed amendments to IAS 23, which provide clarification of which borrowing costs are eligible for capitalisation.

4. We agree that the proposed paragraph 14A to IAS 28 makes it clear the long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture are within the scope of IFRS 9. However, this means that any long-term interests are subject to both impairment requirements under IFRS 9 and the allocation of losses under IAS 28/IAS 31, as made clear by proposed paragraph BC5. We believe that the dual application of the standards to the long-term interests may lead to unnecessary confusion and complexity, as the example below illustrates.

5. For this reason we request that the IASB consider the potential consequences of this proposal. A possible solution to this issue would be to include the long-term interests wholly in only one standard, e.g., applying only the impairment requirements of IFRS 9 and not the loss absorption requirements of IAS 28/31, or vice versa – in line with Mr Ochi's dissenting view.

   *Example*: Suppose entity A invests 50 in shares and 100 in a loan (day-1 IFRS 9 ECL in respect of loan of 2) to an associate. Entity A's share of losses to date is, say, 140 (it's a start-up with early years' losses in line with forecast). So entity A shows shares at nil (50 - absorption of equity losses of 50) and a loan of 8 (98 - absorption of equity losses of 90). Then there is a credit deterioration requiring increase in ECL to (a cumulative) 30. Does entity A:

   - suppress the ECL to only 8 in order not to take the net investment negative (complies with IAS 28's never-negative rule); or
   - book the extra 28 charge to P&L (complies with IFRS 9), resulting in a negative net investment of 20; or
   - book the extra 28 ECL in P&L but at the same time a P&L credit of 20 to reverse 20 of the equity losses (to restore the net investment to nil), even though the associate has not actually reversed its losses at all?

   Depending on which of the above applies, additional confusion and conflicts may arise in relation to the reversal of the above, e.g., what is the priority of reversing the prior year loss share or ECL?

6. We support the consequential amendment to IFRS 1, that comparatives that do not reflect IFRS 9 do not need to reflect the proposed amendments to IAS 28.

**Question 2—Effective date of the proposed amendments to IAS 28 Investments in Associates and Joint Ventures**

**The Board is proposing an effective date of 1 January 2018 for the proposed amendments to IAS 28. The reasons for that proposal are explained in paragraphs BC7–BC9 of the Basis for Conclusions on the proposed amendments to IAS 28.**

**Do you agree with the effective date for those proposed amendments? If not, why, and what alternative do you propose?**

7. Although we note the short time period involved, we agree with the proposed effective date given the alignment to the effective date of IFRS 9.