EFRAG

European Financial Reporting Advisory Group

Draft Comment Letter

Comments should be submitted by 5 February 2016 to
commentletters@efrag.org

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

[Date]

Dear Sir/Madam,

Re: Exposure Draft *Annual Improvements to IFRSs 2014 − 2016 Cycle*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft ED/2015/10 *Annual Improvements to IFRSs 2014 − 2016 Cycle*, issued by the IASB on 19 November 2015 ('the ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS in the European Union and European Economic Area.

EFRAG understands that the annual improvements process offers a valuable opportunity to deal efficiently with a collection of non-urgent amendments to IFRS. EFRAG agrees that the issues addressed by the IASB within the ED meet the criteria of the IASB Due Process Handbook and therefore they should be resolved as part of the annual improvement project.

EFRAG broadly agrees with the proposal in the ED. Our detailed comments and responses to the questions in the ED are set out in the appendix to this letter.

If you would like to discuss our comments further, please do not hesitate to contact Giorgio Acunzo, Joseba Estomba or me.

Yours sincerely,

Roger Marshall
Acting President of the EFRAG Board

APPENDIX- EFRAG's responses to the questions raised in the Exposure Draft

Issue 1 – IFRS 1 *First-time Adoption of International Financial Reporting Standards*: Short-term exemptions for first time adopters

Question 1 – Proposed amendment

Do you agree with the IASB's proposal to amend the Standard as described in the Exposure Draft? If not, why and what alternative do you propose?

Question 2 – Transition provisions and effective date

Do you agree with the proposed transition provisions as described in the Exposure Draft? If not, why and what alternative do you propose?

Notes to constituents

1 The IASB is proposing to delete some of the short-term exemptions in Appendix E of IFRS 1 First-time Adoption of International Financial Reporting Standards because those short-term exemptions have served their intended purpose and deletion could not be achieved through the editorial corrections process.

2 An entity should apply these amendments for annual periods beginning on or after their effective date that has not been set yet.

EFRAG's response

EFRAG agrees with the proposed amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

3 EFRAG agrees with the IASB's proposed amendment as it considers that the aforementioned exemptions provided by IFRS 1 *First-time Adoption of International Financial Reporting Standards* have served their intended purpose, and that outdated provisions should be removed from IFRS through the IASB's due process.

4 Regarding effective date requirements, EFRAG acknowledges that the IASB discussed possible effects of the deletion of these provisions in IFRS 1 at its December 2013 meeting and considered that these proposals should be deleted effective from different dates (e.g. deletion of paragraph E4A should be effective 1 January 2018). Paragraph 39BB of IFRS 1 in the ED implies that the effective date will be the same for all the proposed changes to IFRS 1. This leads us to conclude that the effective date of the amendments should be no earlier than 1 January 2018.

5 EFRAG recommends that the IASB consider the introduction of 'sunset clauses' if future short-term exemptions are added to IFRS 1 so that it will be possible to remove them as editorial amendments rather than following extensive due process. In our view, this would reduce costs for both constituents and the IASB without harming the IASB's due process.

Issue 2 – IFRS 12 *Disclosure of Interests in Other Entities*: Clarification of the scope of the disclosure requirements

Question 3 – Proposed amendment

Do you agree with the IASB's proposal to amend the Standard as described in the Exposure Draft? If not, why and what alternative do you propose?

Question 4 – Transition provisions and effective date

Do you agree with the proposed transition provisions as described in the Exposure Draft? If not, why and what alternative do you propose?

Notes to constituents

6 *This issue relates to the interactions of the disclosure requirements in IFRS 5 Non-current Assets Held for Sale and Discontinued Operations and the scope exception in paragraph B17 of IFRS 12 Disclosure of Interests in Other Entities.*

7 *Paragraph 5B of IFRS 5 states that the disclosure requirements in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations are in the scope of the Standard, and that the disclosure requirements in other IFRSs do not apply to such assets unless:*

(a) *other IFRSs require specific disclosures in respect of such assets; or*

(b) *other IFRSs require disclosures about the measurement of assets or liabilities within a disposal group that are outside the scope of the measurement requirements of IFRS 5.*

8 *Where IFRS 12 states that the disclosure requirements set out in paragraphs B10 – B16 do not apply to the interests within the scope of IFRS 12 that are classified as held for sale in accordance with IFRS 5.*

9 *The concern raised is that in the light of the disclosure requirements in these two Standards, it is not clear whether the disclosure requirements of IFRS 12, other than those in paragraphs B10 – B16, should apply to such interests.*

10 *The IASB is proposing to clarify that the disclosure requirements in IFRS 12 apply to any interests that are classified in accordance with IFRS 5 as held for sale or as held for distribution to owners, other than the disclosure requirements in paragraphs B10 – B16 of IFRS 12.*

EFRAG's response

EFRAG agrees with the proposed amendment to IFRS 12 *Disclosure of Interest in Other Entities*.

11 EFRAG agrees that this issue requires clarification and should be resolved as part of the annual improvements process. EFRAG considers that the proposed amendment provides the necessary clarity.

12 Regarding the transition provision, EFRAG understands that the amendment shall be applied retrospectively in accordance with paragraph 19(b) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. EFRAG generally considers that amendments to Standards should be applied retrospectively, unless it is impracticable to do so, because this enhances the comparability of financial information.

13 Therefore, EFRAG supports the IASB's reliance on IAS 8 for the transition provisions. Moreover, EFRAG considers that in applying these amendments either an entity has already been interpreting IFRS 12 as requiring the disclosures, or it is likely that the required information is readily available without the use of hindsight and undue cost or effort.

Issue 3: IAS 28 *Investments in Associates and Joint Venture*: Measuring investees at fair value through profit or loss on an investment-by-investment basis

Question 4 – Proposed amendment

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

Question 5 – Transition provisions and effective date

Do you agree with the proposed transition provisions as described in the Exposure Draft? If not, why and what alternative do you propose?

Notes to constituents

14 Before IASB revised IAS 28 Investments in Associates and Joint Ventures in 2011, the fair value option for certain investments in an associate or a joint venture appeared as a scope exemption. That paragraph was moved to the body of IAS 28 as a result of the revision.

15 The IASB acknowledged that before the revision in 2011, entities had an explicit option whereby they could choose to measure investees using the equity method, or the fair value option, on an investment-by-investment basis. However, after the revision, it was not clear whether the same option was still available.

16 The proposed amendments clarify that the election is available on an investment-by-investment basis, upon initial recognition of the asset in the scope of IAS 28.

EFRAG's response

EFRAG agrees with the proposed amendment to IAS 28 *Investments in Associates and Joint Ventures*.

17 EFRAG agrees with the proposed amendment as it is implied in paragraph 19 of IAS 28 *Investments in Associates and Joint Ventures* that this accounting policy choice is available on an investment-by-investment basis.

18 Regarding transition provision, EFRAG understands that the amendment is to be applied retrospectively in accordance with paragraph 19(b) of IAS 8. EFRAG generally believes that amendments to Standards should be applied retrospectively, unless it is impracticable to do so, because this enhances the comparability of financial information.

19 EFRAG considers that two scenarios could exist in applying this amendment retrospectively:

(a) All investments are currently measured at fair value: where the entity elects to measure one or more investments at previous dates using the equity method, EFRAG considers that the cost to produce that information could be such that retrospective application is impracticable.

(b) All investments are not currently measured at fair value: where fair value measured had not been applied at previous reporting dates, an entity may not have collected all necessary information to apply retrospectively this amendments without the undue use of hindsight.

In both cases, IAS 8 only requires retrospective application to the extent that it is practicable.

20 Therefore, EFRAG supports the IASB's reliance on IAS 8 for the transition provisions as the modifications to the retrospective requirement are appropriate for these circumstances.

21 EFRAG understands that retrospective application would allow an entity to change the measurement basis for any investment of this type, namely from fair value through profit or loss to equity accounting or vice versa, from the date IAS 28 accounting was first applied. Therefore, EFRAG recommends that the IASB clarify this in the basis for conclusion of these proposed amendments.