EFRAG
European Financial Reporting Advisory Group

Comment Letter

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

3 March, 2016

Dear Sir/Madam,

Re: Annual Improvements to IFRSs 2014-2016 Cycle

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the 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 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?

EFRAG's response

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

Proposed amendment

1 EFRAG agrees with the IASB's proposed amendment as it considers that the aforementioned exemptions provided by IFRS 1 have served their intended purpose, and that outdated provisions should be removed from IFRS through the IASB's due process.

2 Regarding the effective date of the amendment, 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.

3 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?

EFRAG's response

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

Proposed amendment

4 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.

Transition provision

5 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.

6 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?

EFRAG's response

EFRAG agrees with the proposed amendment to IAS 28 *Investments in Associates and Joint Ventures* but recommends further clarity in the Basis for Conclusions.

Proposed amendment

7 EFRAG agrees with the proposed amendment in paragraph 18, as it is implied that this accounting policy choice is available on an investment-by-investment basis. However, EFRAG is not persuaded that the amendment to paragraph 36A is only a clarification of an already implied concept. EFRAG notes that the ED does not elucidate the rationale for this amendment and therefore recommends this be made explicit.

Transition provision

8 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.

9 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.

10 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.

11 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 Conclusions of these proposed amendments.