15 February 2013

Our ref: ICAEW Rep 30/13

Mme Françoise Flores
Chair
European Financial Reporting Advisory Group
13-14 Avenue des Arts
B-1210 Brussels

By email: commentletter@efrag.org

Dear Mme Flores

Annual Improvements to IFRSs 2011—2013 Cycle

ICAEW welcomes the opportunity to comment on EFRAG's draft comment letter on the IASB's exposure draft Annual Improvements to IFRSs 2011—2013 Cycle published on 20 November 2012.

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 140,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

The Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The Faculty's Financial Reporting Committee is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. The faculty also provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.

Attached as an appendix to this letter is ICAEW's own response to the IASB (REP 31/13). The principal themes and specific detail of our response is set out in that document; in this letter we respond specifically to EFRAG's draft comment letter and the questions that EFRAG has posed to its constituents. In general, we agree with EFRAG's conclusions. We share EFRAG's concerns about the purposes for which the annual improvement exercise is currently being used. Given that five minor exposure drafts have been issued around the end of 2012, it might be questioned whether some of those issues would have been more efficiently addressed as Improvements.

The Institute of Chartered Accountants in England and Wales
Chartered Accountants' Hall
Moorgate Place London EC2R 6EA UK
icaew.com

T +44 (0)20 7920 8100
F +44 (0)20 7920 0547
DX 877 London/City

Issue 1: IFRS 1 – First-time Adoption of International Financial Reporting Standards: Meaning of effective IFRSs

We agree with EFRAG's conclusion that there does not appear to be a compelling case to make this amendment.

Issue 2: IFRS 3 – Business combinations: Scope of exception for joint ventures

We agree that this is an issue meriting amendment, although we raise some further considerations in our draft response.

Do you believe that the IASB should address any further amendments to IFRS 3 before commencement of its planned post-implementation review of the standard? Please explain why.

In our opinion, minor amendments should only be made in exceptional circumstances. Therefore unless there is a compelling case, we would not support further amendment to IFRS 3 before its post-implementation review.

Issue 3: IFRS 13 – Fair Value Measurement: Scope of paragraph 52 (portfolio exception)

We agree that this is an issue meriting amendment, although we raise some further considerations in our draft response.

Issue 4: IAS 40 – Investment Property: Acquisition of investment property: interrelationship with IFRS 3

We do not agree that the proposed amendment provides an effective solution to the issue raised. The amendment would essentially just direct the reader to IFRS 3 – a link that could be deduced without the change. It does not address the deficiencies around the definition of a business in IFRS 3 – although EFRAG does suggest that future revision of this standard might be desirable. In our opinion it is better for the Board to remain silent on this issue for now, rather than expose constituents to the expense of change for a solution of little or no incremental value.

Yours sincerely

John Boulton ACA
Manager, Corporate Reporting
ICAEW Financial Reporting Faculty

T +44 (0) 20 7920 8642
E john.boulton@icaew.com

INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the exposure draft *Annual Improvements to IFRSs 2011-2013 Cycle* published by the IASB on 20 November 2012.

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 140,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

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MAJOR POINTS

Focus on key issues

5. In our response to the previous round of annual improvements (REP 127/12), we expressed concern that some of the amendments proposed seemed too trivial to merit the Board's attention. We therefore welcome the restriction of amendments in the 2011-2013 cycle to four standards only. Any amendment to a standard, no matter how minor, involves some cost to constituents, as care must be taken to understand the change and to ensure the correct version of the standard is applied – with further cost incurred if the amendment actually necessitates accounting or disclosure change. We are conscious that the Board is under continuous pressure to adjust standards in response to various issues. Overall, we are pleased to see that these pressures appear to have been somewhat resisted, resulting in significantly fewer draft Improvements when compared to the 2010-2012 cycle. Nevertheless, we do again question whether these issues really merit amendment at this time; this concern is explored further below.

Annual improvements should be the primary mechanism for minor amendments

6. Moreover, we note that over the period November 2012-January 2013, five Exposure Drafts (ED/2012/3, ED/2012/5, ED/2012/6, ED/2012/7 & ED/2013/1) dealing with minor issues have been released. None of these appear to form part of the Board's published work plan. In our opinion, the Annual Improvements process provides an ideal mechanism for making amendments of this type and we feel it would have been more efficient for constituents had these issues been exposed in a single document rather than as six separate papers. Our preference is for minor amendments to be as few as possible. Where amendment is imperative, it is most efficient if issues can be grouped into a single annual exercise.

COMMENTS ON PROPOSED AMENDMENTS

IFRS 1 First-time Adoption of International Financial Reporting Standards

7. We question whether this minor amendment to the Basis for Conclusions of IFRS 1 is really necessary. There are now many versions of IFRS 1 in existence, and although revisions to a standard applied only on adoption are less disruptive than those to other IFRSs, frequent changes do have some impact on the production of accounting literature and on training. If the reference to 'effective IFRSs' is causing interpretation problems – particularly if this has a regulatory dimension – then we agree that this should be addressed. However, we question whether it is really necessary to amend the basis for conclusions for what may be an educational issue. The text of the standard already appears reasonably clear.

IFRS 3 Business Combinations

8. We agree that the term 'joint venture' as used in paragraph 2 of IFRS 3 is now technically incorrect following the publication of IFRS 11 *Joint Arrangements.* Now that a 'joint venture' is a subgroup of a 'joint arrangement', it is clear that the scope of IFRS 3 should continue to point at the whole group of 'joint arrangements' rather than being limited to a certain type of interest. We do note however, that the term 'joint venture' is pervasive to IFRS literature. In cases where the reference is specifically to interests subject to equity accounting, we agree it may be appropriate to retain the original term. However, there are some cases where the reference to 'joint venture' appears to retain its legacy meaning, for example IFRS 5.28, IAS 7.3, and in the basis for conclusions to several standards. We support the current amendment; however, before it is made, we suggest that the Board conduct a survey comprehensive enough to ensure that similar change does not prove necessary elsewhere in IFRS in the future.

IFRS 13 Fair Value Measurement

9. We agree that the proposed clarification is useful and that the scope of the exemption in paragraph 48 of IFRS 13 should be aligned with that of IAS 39 / IFRS 9. However, it is rather unfortunate that change to IFRS 13 is being contemplated at all so soon after its issue date - even before its initial application by many entities. Indeed, we believe that the timing of the amendment merits special consideration regarding whether it is desirable, or perhaps imperative, at this early stage, and of whether there are any lessons to be carried forward for the review process of future standards. And while we accept the need for the clarification, the amendment does not achieve this in an elegant way. Paragraphs 48 onwards contain several references to 'financial assets and financial liabilities'. Yet instead of revising these incomplete references, an addition is made to paragraph 52 explaining that this term is actually intended to mean:

   'financial assets and financial liabilities and other contracts within the scope of and accounted for in accordance with IAS 39 or IFRS 9.'

   This complicates the standard, making it difficult for non-specialists to interpret. It may be better for the clarification to be given as a footnote to paragraph 48 to distinguish it from the main text of the standard.

IAS 40 Investment Property

10. We agree that the classification of acquired investment property as an asset, group of assets, or a business combination is rather subjective and that different conclusions can be reached on this point in practice. However, we are not convinced that the amendment is an effective solution to this issue. The Improvement in essence merely directs the reader to IFRS 3, and as this connection can anyway be easily deduced, there does not seem to be a compelling case to change IAS 40. In any case, the issue underlying the appeal to the Board here is that there is currently some subjectivity as to what exactly constitutes a business – a question that IFRS 3 does not wholly resolve. It is therefore difficult to see how merely referencing to IFRS 3 can resolve the issue. In addition, from recent discussions amongst the Board and the Interpretations Committee, it is apparent that there is some confusion about what a 'property' is. Ultimately there is not an easy fix to this problem, but at this stage we do not believe that

the uncertainty is sufficiently problematic to merit reconsideration of IFRS 3 and the disruption this would inevitably cause. In our opinion it may be better to remain silent on the issue for now; the guidance currently existing in IFRS is adequate for readers to make a reasonable judgement. We recommend that the issue be resolved alongside any consideration of what constitutes a 'property' for the purposes of both IAS 40 and the future leases standard.

RESPONSES TO SPECIFIC QUESTIONS

Question 1: 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?

11. No. As set out in paragraphs 7-10, we do not believe that the issues identified with IFRS 1 or IAS 40 are best tackled through the amendments proposed. The amendment to IFRS 13 may be better addressed as a footnote, and before amending IFRS 3 we urge the Board to survey similar references elsewhere in IFRS to ensure that this issue does not recur.

Question 2: Do you agree with the proposed transitional provisions and effective date for the issue as described in the Exposure Draft? If not, why and what alternative do you propose?

12. The proposed effective dates appear reasonable. However, it should be noted that one of the standards (IFRS 13) has not yet been applied by many entities, while another (IFRS 1) still has previous amendments outstanding that are not yet effective. This multiplicity of versions has the potential to cause confusion for constituents.

E john.boulton@icaew.com