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The Chair
Australian Accounting Standards Board
PO Box 204
Collins St West
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02 March 2015

Dear Ms Peach

**Ernst & Young's global submissions to the IASB - Exposure Draft -
Annual Improvements to IFRSs 2014-2016 Cycle**

Please find enclosed Ernst & Young's global submissions to the IASB on the above exposure draft.

Yours sincerely

Ernst & Young

Encl:

International Accounting Standards Board
30 Cannon Street
London,
EC4M 6XH

17 February 2016

Dear IASB members,

Invitation to comment - *Annual Improvements to IFRSs 2014-2016 Cycle*

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the Exposure Draft *Annual Improvements to IFRSs 2014-2016 Cycle* (ED) issued by the International Accounting Standards Board (the Board) in November 2015.

In general, we agree with the proposed amendments in the ED. Our detailed comments and editorial suggestions are included in the Appendix.

If you wish to discuss any of these comments please contact Leo van der Tas at +44 (0)20 7951 3152.

Yours faithfully

Ernst + Young Global Limited

Appendix

General Questions (applicable to all proposed amendments)

1. 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?
2. Do you agree with the proposed transition provisions and effective date for the issue as described in the Exposure Draft? If not, why and what alternative do you propose?

Response to question 1

IFRS 1 *First-time Adoption of International Financial Reporting Standards* - Deletion of short-term exemptions for first-time adopters

We have the following comments about the proposed amendments to IFRS 1.

As a general point, before finalising the amendments, we would advise that the Board consider the wider effect of deleting paragraphs like E3 and E4, which, apart from extending the transition relief in IFRS 7 to first-time adopters when that standard was amended, also have the effect of restricting the use of hindsight when applying the specific amendments to IFRS 7. We believe that the issue of potential use of hindsight would continue to remain for certain IFRS first-time adopters in respect of these particular disclosures in IFRS 7. Therefore, we believe that consideration should be given as to whether the exemptions contained in paragraphs E3 and E4, as well as other paragraphs that have the effect of restricting the use of hindsight, should be turned into permanent exemptions in IFRS 1.

With respect to paragraph E6, the Board states in the proposed BC2 that the relief provided by paragraph E6 was considered unnecessary because whether the entity applies investment entity accounting from the date of transition to IFRS or from an earlier date, the outcome will be the same; that is, the investment will be measured at fair value at the transition date with adjustments recognised against opening retained earnings. We agree that this would be true in the following scenarios:

- (i) Where an entity was an investment entity before the date of transition, and continued to be an investment entity at the date of transition, and
- (ii) Where an entity became an investment entity at the date of transition to IFRS.

However, for an entity that was an investment entity at some stage before the date of transition, but is no longer an investment entity at the date of transition, we think some further clarity is required. We understand that, if paragraph E6 is removed, paragraph B100 of IFRS 10 *Consolidated Financial Statements* would be invoked, meaning that the entity would need to apply IFRS 3 *Business Combinations* retrospectively at the date of the status change from investment entity to non-investment entity. This requirement would clearly be onerous for such an entity. The staff paper 12D for the December 2013 Board meeting addressed this issue, stating that:

'We have also thought about the circumstance in which a first-time adopter was viewed as an investment entity for part of the period prior to the transition date but not an investment entity as of the date of transition to IFRSs. Paragraph B100 of IFRS 10 requires the entity to apply IFRS 3 *Business Combinations* to investments in subsidiaries when it ceases to be an investment entity. However, IFRS 1 has an exemption from applying IFRS 3 to business combinations that occurred before the date of transition to IFRSs (Appendix C of IFRS 1). Hence, a first-time adopter is permitted to apply the previous GAAP rather than IFRS 3 to the change of status that occurred prior to the transition date.'

We agree with the staff that the relief offered by Appendix C¹ of IFRS 1 should be available for an entity that was an investment entity before the date of transition, but is no longer an investment entity at the date of transition. However, from reading the proposed amendment and the Basis for Conclusions, we do not think it is clear that the relief would be available, because the scenario is not a traditional business combination scenario as anticipated by Appendix C. We therefore think it would be helpful to amend Appendix C and to include some explanatory wording in the Basis for Conclusions to clarify that this relief is available to such entities.

In addition to the above, we have some suggested editorial comments on the proposed amendment to IFRS 1, as follows:

- ▶ BC1 states that the Board proposes to delete the short-term exemptions in paragraphs E3-E7 (which includes E6) because the Board concluded that the relief provided has now served its intended purpose. BC2 then deals with the reason for deleting paragraph E6. We recommend that the reference to paragraph E6 should be removed from BC1 and that the Board revise the first sentence of BC1 as follows:

'The IASB proposes to delete the short-term exemptions in paragraphs E3-~~E6~~E5 and E7 of IFRS 1 *First-time Adoption of International Financial Reporting Standards*.'

- ▶ BC1(d) refers to '... annual periods ending on or after 31 December 2015.' However, we believe that '2015' should be replaced by '2014' because paragraph 173(b) of IAS 19 states that an entity need not to present comparative information in financial statements for periods beginning before 1 January 2014, which means that for periods beginning on or after 1 January 2014 (that is, for annual periods ending on or after 31 December 2014), a first-time adopter needs to present the comparative information. We therefore recommend that the Board revise the second sentence of BC1(d) as follows:

'Paragraph E5 is deleted because the relief provided in paragraph 173(b) of IAS 19 is not applicable for financial statements prepared for annual periods ending on or after 31 December ~~2015~~2014.'

¹ Appendix C of IFRS 1 *Exemptions for business combinations* states that 'An entity shall apply the following requirements to business combinations that the entity recognised before the date of transition to IFRSs. This Appendix should only be applied to business combinations within the scope of IFRS 3 *Business Combinations*.'

IFRS 12 *Disclosure of Interests in Other Entities* - Clarification of the scope of the disclosure requirements

We agree with the proposed amendments to IFRS 12. We have one editorial suggestion however, to improve the completeness of the proposed amendment.

In paragraph B17 of IFRS 12, we suggest making the following amendment to align the wording with that in paragraph 5A (in bold text for emphasis, and one strike through):

'When an entity's interest in a subsidiary, joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified as held for sale, ~~or as held for distribution to owners~~ **or as discontinued operations** in accordance with IFRS 5 [...]'

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

We agree with the reason for the amendment to IAS 28 to clarify that entities should make the election to measure their investments in associates or joint ventures at fair value through profit or loss (FVTPL) on an investment-by-investment basis at initial recognition of the investment.

We note an issue with the transition provisions however - please refer to our response to question 2 below.

Response to question 2

We agree with the proposed transition provisions and effective date as described in the ED for the amendments to IFRS 1 and IFRS 12.

However, we have the following concern about the transition provisions for the amendment to IAS 28. For the very reason that an IFRS Interpretations Committee submission was made, we believe that there may have been different interpretations of paragraph 18 by preparers of financial statements. Further, paragraph 45E of the proposed amendment requires a fully retrospective application. For example, an entity may have elected in a previous year to make use of the FVTPL option contained in paragraph 18 on a portfolio basis, rather than on an investment-by-investment basis. As currently worded, paragraph 45E would now require such an entity to retrospectively reconsider whether they wish to apply the FVTPL option on an investment-by-investment basis. While we support the principles of retrospective application as contained in IAS 8, we believe that in this instance retrospective application would be inappropriate as it would require the use of hindsight, and consequently the restatement of the entity's historic results would not remain unbiased.

One of the ways to avoid the above effect would be for the Board to clarify the following through the transition provisions:

- (a) That the selection made on initial recognition of an investment in an associate or joint venture in the past should be retained, irrespective of whether this was made on an investment-by-investment basis, or not; and
- (b) That the amendment requiring the FVTPL option to be made on an investment-by-investment basis would only be applicable prospectively to the initial recognition of all investments in associates or joint ventures occurring after the effective date of the amendment.