BUSINESSEUROPE

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

18 February 2013

Dear Sirs,

Re: Exposure Draft Annual Improvements to IFRSs: 2011-2013 Cycle

BUSINESSEUROPE welcomes the opportunity to comment on the Exposure Draft, Annual Improvements to IFRSs 2011 – 2013 Cycle, issued by the IASB on 20 November 2012 (the 'ED').

Our detailed comments and responses to the questions in the ED are set out in the appendix. To summarise, we believe that the IASB should avoid making piecemeal changes (the amendments to IFRS 3 and IAS 40) to IFRSs for those areas that are currently being dealt with in other separate projects We believe the IASB should take an holistic approach and all potential amendments linked to IFRS 3 should be dealt with as part of the post implementation review of IFRS 3. We are also concerned that some changes are intended only to modify the wording used in the basis for conclusions while the standard itself is already sufficiently clear (the amendment to IFRS 1).

On the amendment to IFRS 13, we agree with the proposal but would ask for a clarification from the IASB that the reference to an "existing arrangement" mitigating net credit risk exposure for non-financial instruments (as defined in IFRS 13.56) also includes those other contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements (contracts often referred as "own use" contracts).

If you require any further information or explanation, please do not hesitate to contact us.

Yours sincerely,

p.p.

Jérôme P. Chauvin
Director
Legal Affairs Department
Internal Market Department

APPENDIX 1

BUSINESSEUROPE's responses to the questions raised in the ED

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? **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?

1. **Proposed amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards***

Q1 / We believe that there is no need of such a proposal since IFRS 1.7 is already sufficiently clear.

Notwithstanding this general comment, we have nevertheless noticed that some confusion could arise in reading the last sentence of BC11A, especially "Consequently, if a first-time adopter chooses to early apply a new IFRS, that new IFRS will be applied throughout the periods presented in its first IFRS financial statements, unless **this IFRS** provides an exemption or an exception that permits or requires otherwise". To ensure that the words "this IFRS" refers to IFRS 1 instead to new IFRS to be applied, we propose that the above is modified to read "unless **that** IFRS provides an exemption..."

Q2 / the amendments only clarify the basis for conclusions so that no effective date nor transactional provisions are provided.

2. **Proposed amendment to IFRS 3 *Business Combinations***

Q1 / The proposed amendment first aims to update the scope exclusion for joint ventures and clarifies that it applies to all forms of joint arrangements defined in IFRS 11, i.e. joint ventures and joint operations.

The amendment also clarifies that the scope exception only applies to the accounting in the financial statements of the joint venture or joint operation itself.

On the latter, we believe that the proposal is redundant since IFRS 3 only applies to a transaction or other event that meets the definition of a business combination (i.e. a transaction or other event in which an acquirer obtains control of one or more businesses). As a consequence, it cannot *de facto* apply to the accounting for an interest in a joint arrangement in the financial statements of the joint venture or joint operation itself (IFRS 3 is a shareholder issue). Neither can it apply to the acquisition of an interest in a joint arrangement, since in such a case the investor does not obtain control of the investee.

Having said that and considering that annual improvements should only provide minor changes to IFRSs, we are concerned by the fact that this project may have unexpected/unintended consequences on the other project dealing with the acquisition of an interest in a joint operation (Exposure Draft ED/2012/7 *Acquisition of an Interest in a Joint Operation*). Instead of providing piecemeal changes to IFRSs, we believe that the IASB should rather investigate in a single project how the acquisition of an interest in a joint arrangement (joint venture or joint operation) interacts with the principles of IFRS 3.

Furthermore, we are also concerned by the wording used since the term "formation" of a joint venture or joint operation is not sufficiently clear either.

Finally, we believe that all potential amendments linked to IFRS 3 (see also amendment to IAS 40) should be dealt with as part of the post implementation review of IFRS 3.

Q2 / Since we do not agree with the proposal, we do not comment the effective date and transitional provisions.

3. Proposed amendment to IFRS 13 *Fair Value Measurement*

Q1/ BUSINESSEUROPE welcomes the clarification that IFRS 13.52 does not only apply to financial assets and liabilities as defined in IAS 32 *Financial Instruments: Presentation*.

Having said that, we also note that IFRS 13.56 states that "*when using the exception in paragraph 48 to measure the fair value of a group of financial assets and financial liabilities entered into with a particular counterparty, the entity shall include the effect of the entity's net exposure to the credit risk of that counterparty or the counterparty's net exposure to the credit risk of the entity in the fair value measurement when market participants would take into account any existing arrangements that mitigate credit risk exposure in the event of default (e.g. a master netting agreement with the counterparty or an agreement that requires the exchange of collateral on the basis of each party's net exposure to the credit risk of the other party) (...)*".

While we agree that the portfolio exception also applies to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, we think that it is important that the IASB makes it clear that "existing arrangement" mitigating net credit risk exposure in accordance with IFRS 13.56 also includes those other contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements (contracts often referred to "own use" contracts).

We also note that if an entity elects for the Fair Value Option for its own use contracts in accordance with IFRS 9/IAS 39 (as it is currently dealt with in the Review Draft on Hedge Accounting), the credit risk exposure would be represented on a net basis since all deals would have been accounted for as derivatives and be in the scope of IFRS 13.52.

Q2 / We agree with the effective date and transitional provisions.

4. Proposed amendment to IAS 40 *Investment Property*

Q1/ BUSINESSEUROPE welcomes the clarification that judgement is required to determine whether the property acquired meets the definition of an asset, group of assets or business as defined in IFRS 3 *Business Combinations* and that reference should be made to IFRS 3 for such determination.

However, while the amendment is expected to be a very narrow change to current IFRSs, it nevertheless illustrates the need to consider more globally the consequences of the distinction between assets and businesses and whether guidance to distinguish assets from businesses is needed as part of the post implementation review of IFRS 3.

We do not believe that the proposed change to IAS 40 answers this concern.

Assessing the consequences more globally would also ensure a consistent approach at a time several projects are currently ongoing at the IASB namely:

- Sales or contributions of assets between an investor and its associate/ joint venture (Proposed amendments to IFRS 10 and IAS 28); and
- Acquisition of an interest in a joint operation (Proposed amendments to IFRS 11).

Q2 / We agree with the prospective transitional provisions.