

12 March 2014

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

Dear Sir/Madam,

**Re: Exposure Draft *Annual Improvements to IFRSs 2012–2014 Cycle***

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the exposure draft, *Annual Improvements to IFRSs 2012–2014 Cycle*, issued by the IASB on 11 December 2013 (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.

Our detailed comments and responses to the questions in the ED are set out in the Appendix. To summarise we agree with most proposals in the ED and with the objectives they are trying to achieve, but EFRAG is concerned about the proposed amendments to IAS 19 *Employee Benefits* for the reasons explained below.

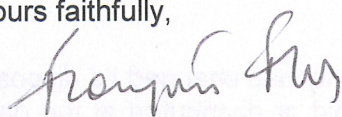
EFRAG appreciates the responsiveness of the IASB in clarifying that it is the currency that the liabilities are denominated in that is important when determining the discount rate for post-employment benefit obligations rather than the country where they arise.

However, we believe that in some circumstances it is unclear if the proposals would result in an outcome that is consistent with the IASB's objectives (e.g. jurisdictions adopting stronger currencies of other countries, jurisdictions that have a deep market of high quality corporate bonds sharing a single currency with other countries which do not, and interactions with local requirements for post-employment benefit liabilities and on plan assets).

Therefore, EFRAG believes that the IASB – before finalising these proposals – should explain the objectives and the rationale in selecting and using a discount rate to measure post-employment benefit obligations so that constituents can exercise appropriate judgement in applying the requirements in paragraph 83 of IAS 19.

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

Yours faithfully,



Françoise Flores  
EFRAG Chairman

## APPENDIX

### EFRAG's responses to the questions raised in the ED

#### Question 1 – 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 2 – Transition provisions and effective date

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?

- 1 EFRAG's responses to the questions raised in the exposure draft ED/2012/2 *Annual Improvements to IFRSs 2012–2014 Cycle* are provided below for each of the five issues that the IASB is proposing to deal with in this cycle of annual improvements to IFRSs.

#### **Issue 1: IFRS 5 *Non-current Assets held for Sale and Discontinued Operations*: change of disposal method**

##### **EFRAG's response**

**EFRAG agrees with the proposals. However, we believe that these amendments should be applied retrospectively.**

- 2 EFRAG agrees that this issue requires clarification and should be resolved as part of the annual improvement project.
- 3 EFRAG notes that the proposals are consistent with paragraph BC60 of IFRIC 17 *Distribution of Non-cash Assets to Owners*, which requires that the guidance in IFRS 5 on non-current assets (or disposal groups) classified as held for sale should also be applied to assets (or disposal groups) held for distribution to owners.
- 4 However, EFRAG believes that the IASB should make explicit in proposed paragraph 26B that a change of a 'plan of sale' to a 'plan of distribution' (or vice versa) does not trigger any remeasurement provided that the criteria in paragraphs 6 to 12A of IFRS 5 are still met.
- 5 In addition, EFRAG believes that these proposed amendments should be applied retrospectively. In our view, if a change in plan had resulted in the remeasurement of either an asset or a disposal group in a previous period, an entity would normally have all the relevant information at the time of the change in the plan. In such cases the risk of using hindsight is limited and outweighed by the benefit of having comparable information.
- 6 However, we believe that when in a prior period an entity has changed its disposal plans, and the asset (or disposal group) has been sold or distributed at the date these proposed amendments are first applied, an entity should not be required to apply them retrospectively. In EFRAG's view, users could already assess how the sale or the distribution has affected an entity's performance by analysing their effects on previous profit or loss statements. Accordingly, we believe that in these

circumstances, the cost of applying these amendments retrospectively will not be outweighed by the benefit for users of financial information.

## Issue 2: IFRS 7 *Financial Instruments- Disclosures*: servicing contracts

### EFRAG's response

**EFRAG agrees with these proposed amendments.**

- 7 EFRAG agrees that this issue requires clarification and should be resolved as part of the annual improvement project.
- 8 EFRAG believes that these amendments improve the understandability of disclosures on servicing contracts and result in financial information that is relevant for users. However, we have a number of specific comments.

- (a) We believe that the IASB should clarify what it means by the term 'continuing involvement' in the context of IFRS 7. In particular, we note that in IAS 39 *Financial instruments: Recognition and Measurement* it is used in a narrow sense, which only relates to the question of (de)recognition and which comprises the retention of risks and rewards. However, in IFRS 7 and IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities* the term 'involvement' is used in a wider sense. We believe that the IASB should clarify or define the term in IFRS 7 and harmonise the use of the term across existing Standards.
- (b) We believe that the proposed amendments to paragraph B30A could be improved as follows:

*'When an entity transfers a financial asset the entity may retain the right to service that financial asset for a fee that is included in, for example, a servicing contract. ~~The right to earn a fee for servicing the financial asset is generally continuing involvement for the purposes of applying the disclosure requirements. The entity must assess the servicing contract in accordance with the guidance in paragraphs 42C and B30 to make that determination~~ determine whether the right to earn a fee for servicing the financial asset is continuing involvement for the purposes of applying the disclosure requirements. For example, (...).'*

This change in wording calls for judgement to be exercised in the specific circumstances and eliminates any preconception of those circumstances.

- (c) We encourage the IASB to clarify the objective of these proposed amendment and explain in which cases the proposed amendment would in fact not apply.
- (d) We agree with the proposed transitional requirements.

## Issue 3: IFRS 7 *Financial Instruments-Disclosure*: applicability of the amendments to IFRS 7 on offsetting financial assets and financial liabilities to condensed interim financial statements

### EFRAG's response

**EFRAG agrees with these proposed amendments.**

- 9 EFRAG agrees that this issue required clarification and should be resolved as part of the annual improvement project.

- 10 Furthermore, EFRAG supports these proposed amendments as paragraph 44R of IFRS 7 results in burdensome disclosures that increase the cost of producing financial information while not being useful for users.
- 11 EFRAG also supports the retrospective application of these amendments and agrees with the basis for conclusions.

#### **Issue 4: IAS 19 *Employee Benefits*: discount rate: regional market issue**

##### **EFRAG's response**

**EFRAG supports the IASB's effort to develop short-term guidance dealing with countries where a high-quality corporate bond market does not exist and that use the same currency as other countries. However, we believe that the IASB – before finalising these proposals – should clarify the objectives and the rationale underlying the selection and use of a discount rate in measuring post-employment benefit obligations.**

- 12 EFRAG understands that paragraph 83 of IAS 19 *Employee Benefits* was developed at a time when the concept of jurisdiction was not significantly different from the one of currency. Therefore, we support the IASB's effort to develop enhanced guidance dealing with countries where a high-quality corporate bond market does not exist and that use the same currency as other countries (e.g. Eurozone). We understand that such guidance is intended as a short-term improvement pending the outcome of its research project on discount rates.
- 13 In addition, EFRAG notes that the IFRS Interpretations Committee recently decided against issuing additional guidance on determining discount rates, as it would be too broad for them to address in an efficient manner. They recommended that the IASB address the issue in its research project on discount rates.
- 14 However, EFRAG believes that the IASB, before finalising these proposed amendments, should undertake a thorough analysis of the effects of its proposals:
  - (a) to clarify the objectives and hence rationale for selection and use of the discount rate used to measure post-employment benefit liabilities;
  - (b) to ensure that they preserve consistency of the discount rate with all the other assumptions made in measuring post-employment benefit obligations; and
  - (c) to assess the effects of its final proposals in the circumstances described in paragraph 16 below in order to ensure that the proposed amendments will not result in anomalous outcomes.
- 15 In EFRAG's view, it is crucial that the IASB explains the objective and rationale in selecting and using a discount rate to measure post-employment benefit obligations so that constituents can exercise judgement in applying the requirements in paragraph 83 of IAS 19.
- 16 EFRAG has a number of specific concerns regarding the proposed amendments that should be considered by the IASB before finalising the proposed amendments:
  - (a) The amendments could result in anomalous outcomes when a jurisdiction adopts a stronger currency (e.g. US Dollar) for general commercial purposes even if the economic fundamentals of these two jurisdictions are not

- comparable (e.g. the Republic of Ecuador that uses the US Dollar as its currency);
- (b) The use of a discount rate based on bonds issued by entities domiciled in another country that uses the same currency but whose economic fundamentals are different might be incompatible with other required inputs such as inflation or might lead to uncertainty as to which inflation rate to apply (e.g. domestic, regional or foreign). In this regard, we note that paragraph 78 of IAS 19 requires entities to apply mutually compatible assumptions in relation to inflation and discount rates. Therefore, before finalising the amendment the IASB should carry out some further analysis to ensure there are no unintended consequences and to ensure there is common understanding of mutually compatible inflation, discount rates and other assumptions where the discount rate is derived from a bond issued in a foreign currency.
  - (c) It is unclear whether entities operating in jurisdictions where a deep high-quality corporate bond market exists (e.g. Germany) will be required to use blended rates defined at currency level (e.g. iBoxx) that might incorporate bonds issued in countries, with less developed markets and different economic circumstances, which use the same currency (e.g. Eurozone). A similar issue arises in considering separate plans operated by subsidiaries in the same group but in different countries sharing a common currency; and
  - (d) In some countries, pension plans need to invest in assets from that same country. In our view, using an internationally blended rate to discount the post-employment benefit liability while national yield curves to determine the fair value of the plan asset introduces inconsistency in assumptions and could result in artificial volatility in equity. We note that current mechanics in IAS 19 require that the return on plan assets, excluding amounts included in net interest on the net defined benefit liability, should be recognised in other comprehensive income.
- 17 Finally, if the IASB is successful in addressing the concerns above, EFRAG agrees with the proposed transitional requirements.

*Issue 5: IAS 34 Interim Financial Reporting: disclosure of information 'elsewhere in the interim financial report'*

**EFRAG's response**

**EFRAG agrees with these amendments.**

- 18 EFRAG agrees that this issue required clarification and should be resolved as part of the annual improvements project.
- 19 In addition, EFRAG supports these proposed amendments as we believe that they will improve the understandability of interim financial reporting and will result in information that is more useful to users.
- 20 However, EFRAG believes that the IASB should clarify what it means by '*on the same terms as the interim financial statements and at the same time*', as this phrase is not well-understood. In particular, we note here that important jurisdictional differences exist in the requirements governing the review, publication and communication of interim financial information. Therefore, EFRAG believes that the IASB should liaise with the International Auditing and Assurance Standards Board in respect of the IAASB's existing pronouncements regarding the

review of interim financial statements and assess whether and if so how IFRS reporting requirements and IAASB's review requirements are interlinked.

- 21 In addition, we believe that the IASB should clarify how the proposals would apply, for instance, in circumstances where interim financial statements refer to financial information that was initially available 'elsewhere' to users in previous periods (e.g. an entity's web site) but is not necessarily kept available for the same future period.
- 22 EFRAG supports the retrospective application of these amendments. However, we note that in some cases it may not be possible for entities to make the 'other parts of the interim financial report' available at the same time and the same terms on a retrospective basis. Therefore, we believe that the IASB should consider such situations further before requiring full retrospective application for this proposed amendment.