Financial Reporting Council

Françoise Flores
European Financial Reporting Advisory Group
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Belgium

E-mail submission: Commentletters@efrag.org

20 February 2014

Dear Françoise

IASB Exposure Draft *Annual Improvements to IFRSs 2012 – 2014 Cycle*

I am responding on behalf of the Financial Reporting Council (FRC) to the European Financial Reporting Advisory Group (EFRAG) draft comment letter on the above exposure draft.

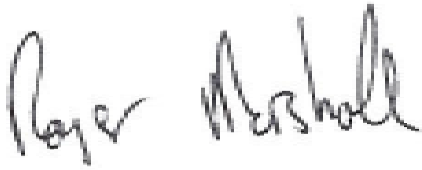
The FRC has reviewed the proposals set out in the exposure draft and has responded directly to the International Accounting Standards Board's (IASB) invitation to comment. I have attached a copy of the FRC's letter to the IASB for your reference.

The FRC is generally in agreement with most of EFRAG's responses set out in the draft comment letter. We have set out our responses to the Questions to Constituents raised by EFRAG in the Appendix below.

We also advise you that we have raised some additional concerns and observations in respect of some of the detail of the proposed amendments in our comment letter to the IASB, other than those raised by EFRAG in its draft response letter.

If you would like to discuss these comments, please contact Anthony Appleton on 020 7492 2432 or a.appleton@frc.org.uk or myself.

Yours sincerely



Roger Marshall
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Appendix
FRC responses to the Questions for Constituents

What is the additional guidance that should be considered in order to meet the objectives the IASB is trying to achieve with these proposed amendments?

FRC response:
None.

Are you aware of any circumstance where these amendments will not result in meaningful outcomes?

FRC response:
No, not as far as circumstances generally arising in the UK is concerned.

Do you support the retrospective application of these amendments?

FRC response:
Yes.

Financial Reporting Council

Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Submitted electronically

20 February 2014

Dear Hans

IASB Exposure Draft *Annual Improvements to IFRSs 2012 – 2014 Cycle*

I am writing on behalf of the Financial Reporting Council in response to the above Exposure Draft (ED).

The FRC's detailed responses to the questions set out in the Invitation to Comment in the ED are included as an appendix to this letter. Overall the FRC supports the proposed amendments to International Financial Reporting Standards (IFRSs) as part of the annual improvements project, although we have reservations on the detail of some of the proposed changes.

If you would like to discuss these comments, please contact Anthony Appleton on 020 7492 2432, a.appleton@frc.org.uk or myself as set out below.

Yours sincerely

Roger Marshall
FRC Board Member and Chair of the Accounting Council
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Appendix
FRC responses to the general questions in the IASB Exposure Draft *Annual Improvements to IFRSs 2012 – 2014 Cycle*

Question 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?

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

In respect of the proposed clarification concerning the reclassification of non-current assets or disposal groups between held for sale and held for distribution, we question whether the amendment is necessary. We acknowledge that IFRS 5 is silent in respect of the measurement requirements on reclassifications. However, in our view such transactions should be rare in practice and adding a new rule to IFRS 5 may be a disproportionate response.

In respect of the proposed amendment in paragraph 26B, we note that entities that reclassify non-current assets or disposal groups between held for sale and held for distribution should continue to apply the classification, presentation and measurement requirements applicable to the non-current asset or disposal group that is classified as held for sale or as held for distribution. We are uncertain whether under the proposed amendment it is the IASB's intention that in a situation of a reclassification a non-current asset or disposal group <u>held for sale</u> may be measured at <u>fair value less cost of</u> <u>distribution</u> and a non-current asset or disposal group <u>held for distribution</u> may be measured at <u>fair value less cost of</u> <u>sale.</u> In our view the described inconsistency between the intended method of disposal and the measurement basis is not a desirable accounting outcome.

We agree with the proposed clarification set out in paragraph 26A concerning cease to hold for distribution accounting.

IFRS 7 *Financial Instruments: Disclosure*

As a general point, we note that paragraph 42C of IFRS 7 describes two situations where an entity has continuing involvement in a transferred financial asset. It can arise because the transferee has retained any of the contractual rights or obligations inherent in the transferred asset or because it has obtained new contractual rights or obligations relating to the transferred asset. IFRS 9 *Financial Instruments* (at paragraphs 3.2.16 et seq) only uses the term for the former situation to describe to what extent an entity should continue to recognise the financial assets when the entity has neither transferred nor retained substantially all the risks and rewards, and has retained control. This may be a source of confusion since the use of the term in IFRS 9 may be understood to imply a definition that contradicts that in IFRS 7. The confusion might be exacerbated by the proposed amendment in paragraph B30A of IFRS 7 which describes whether a service contract constitutes continuing involvement within the context of IFRS 7, because IFRS 9 also contains accounting requirements in relation to service contracts although not under the caption of continuing involvement.

In relation to the content of the amendment in paragraph B30A we believe the proposed drafting 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~~ <u>determine whether the right to earn a fee for servicing the financial asset is continuing involvement for the purposes of applying the disclosure requirements.</u> For example, …

We agree with the proposed amendment to paragraph 44R of IFRS 7 concerning the interim reporting requirements and the IASB's rationale for proposing this change.

IAS 19 *Employee Benefits*

We understand the IASB's rationale for making the change and generally agree that in some jurisdictions, such as those within the Eurozone, the proposed clarification may be beneficial.

However, we note that paragraph 78 of IAS 19 requires entities to apply mutually compatible assumptions in relation to inflation and discount rates and would be concerned that the use of a discount rate of a foreign currency bond might be seen to 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. We recommend that before finalising the amendment some further analysis is carried out 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. This additional analysis could form part of the IASB's broader project on the use of discount rates.

Furthermore, in, for example, the Eurozone, the amendment might lead to confusion where the same currency is used for domestic and cross-regional bond issues each with different yields. It would be useful to explain the factors for entities to consider where a number of bonds covering different geographical areas exist.

IAS 34 *Interim Financial Reporting*

We agree with the proposed clarification and in our view it should improve the ability of users of interim financial report to find relevant information.

We note that the interim financial statements may be subject to different external review requirements (on a voluntary or mandatory basis) than the remainder of the interim financial report and the information included in other parts of the interim financial report may therefore not be subject to the same level of scrutiny than the disclosure in the interim financial statements. We acknowledge that it is the remit of national regulators to implement external review requirements of interim financial statements, rather than that of the IASB. The IASB may, however, wish to liaise with the International Auditing and Assurance Standards Board (IAASB) in respect of the IAASB's existing pronouncements concerning the review interim financial statements and assess how IFRS reporting requirements and IAASB review requirements are interlinked.

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?

FRC response:

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

In our view there are no significant issues associated with the proposed transitional requirements. However, we note that the IASB has not explained its rationale for departing from its usual policy to make changes effective retrospectively and consistent application of this policy may be preferable to aid consistency and comparability of financial statements.

IFRS 7 *Financial Instruments: Disclosure*

We agree with the proposed transitional requirements.

IAS 19 *Employee Benefits*

We agree with the proposed transitional requirements.

IAS 34 *Interim Financial Reporting*

We note the proposed clarification is effective retrospectively. 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. We therefore believe that there is justification to depart from the policy of retrospective application and recommend that the IASB implements these changes prospectively.