Deutsches Rechnungslegungs Standards Committee e.V.
Accounting Standards Committee of Germany
®
IFRS-Fachausschuss

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EFRAG
Françoise Flores
35 Square Meeûs

B-1000 Brussels

Berlin, 12 February 2013

Dear Françoise,

Draft Comment Letter on the IASB's Exposure Draft ED/2012/2 Annual Improvements to IFRSs 2011-2013 Cycle

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on EFRAG's Draft Comment Letter on the IASB's ED/2012/2 'Annual Improvements to IFRSs 2011-2013 Cycle' issued by EFRAG on 19 December 2012. We appreciate the opportunity to comment on EFRAG's Draft Comment Letter.

With respect to the proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* we do not concur with the EFRAG's comment that these amendments are not necessary. We understand the EFRAG's reasoning that the requirements of IFRS 1 are already sufficiently clear. However, the Basis for Conclusions (paragraph BC11) appears to conflict with paragraph 7 of IFRS 1. Therefore, we support the IASB's intention to remove this conflict through the annual improvements process.

We share EFRAG' view that the IASB should address the issues raised by constituents within the core text of the standards instead of amending the Basis for Conclusions. In some cases however, we believe that an amendment to the Basis for Conclusions without a corresponding change in the core text of the standard could be appropriate (i.e. if the Basis for Conclusions itself was found to be misleading or containing an error).

With regard to the proposed amendments to IFRS 3 *Business Combinations*, EFRAG raises the question to its constituents, whether any further amendments to IFRS 3 should be addressed by the IASB before commencement of the planned post-implementation review of the standard. We consider it appropriate to address the issues raised by constituents within the Annual Improvements project rather than to postpone them until the post-implementation review, provided that those issues are sufficiently narrow in scope to qualify for inclusion in annual improvements. We believe that such approach helps to remove uncertainties about the issues raised on a timely basis.

While proposing amendments, the IASB considers the criteria for the Annual Improvements process set out in its Due Process Handbook. The criterion (d) states that "if the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would". The post-implementation review of IFRS 3 is expected to start in the first half of 2013 and will last months or even years before potential amendments to this standard will be considered. If in the meantime, the IASB or its constituents note some unintended consequences, conflicts, oversights or unclear wording in IFRS 3 which could be removed through minor amendments to this standard, it would, in our view, justify the need for those amendments.

Furthermore, we would like to point out that the purposes of the post-implementation review differ from those of the Annual Improvements project, so that it cannot be foreseen that a specific issue will be included in the standard setting action within the post-implementation review.

For our arguments and further details, please see our draft comment letter to the IASB as attached to this letter, specifically our comments on the proposed amendments to IAS 40 *Investment Property*.

If you would like to discuss any aspects of this draft comment letter in detail, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President

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

United Kingdom

Berlin, 12 February 2013

Dear Hans,

Exposure Draft ED/2012/2 Annual Improvements to IFRSs 2011-2013 Cycle

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB Exposure Draft ED/2012/2 'Annual Improvements to IFRSs 2011-2013 Cycle'. We appreciate the opportunity to respond to the Exposure Draft under the sixth cycle of the annual Improvements project.

We agree with the proposals as drafted in the Exposure Draft. In some cases we provide additional comments that could lead to further improvements to the proposed amendments.

Our detailed comments on the proposed amendments are set out in the appendix to this letter.

If you would like to discuss any aspects of this comment letter in detail, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President

Appendix

General questions - to be answered individually for each proposed amendment **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?

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Meaning of effective IFRSs

Question 1: We welcome the IASB's proposal to clarify the meaning of effective IFRSs. In general, we do not consider an amendment to the Basis for Conclusions without a corresponding change in the core text of the standard to be an appropriate approach. In this specific case, however, we support the proposed amendment because it aims to remove an inconsistency that is only contained in the Basis for Conclusions (i.e. between paragraph 7 and paragraph BC11).

However we believe that the wording of paragraphs BC11 and BC11A as proposed should be improved.

According to the first sentence of the current paragraph BC11 a first-time adopter is required to apply "the current version of IFRSs, without considering superseded or amended versions". That implies that the entity should use the most recent version of an IFRS. The advantages of using a most recent version of an IFRS are explained in the second sentence of this paragraph under (a)-(c). The IASB proposes to amend the first sentence of paragraph BC11 to clarify that a first-time adopter is not required to apply the **most recent** but "a **single"** version of each IFRS (emphasis added). The advantages explained under (a)-(c), however, derive only from applying the most recent version of an IFRS. Accordingly, we suggest improving the wording of the second sentence of paragraph BC11 of IFRS 1 as follows:

> "Applying the most recent version of an IFRS ~~This~~:
> (a) enhances comparability, because the information in a first-time adopter's first IFRS financial statements is prepared on a consistent basis over time;
> (b) gives users comparative information prepared using later versions of IFRSs that the Board regards as superior to superseded versions; and
> (c) avoids unnecessary costs."

Furthermore, in IFRS 1 the term "adoption" is only used in the context of "first-time-adoption". In the context of applying a specific IFRS or a specific IFRS version, the term "application" is used. Consequently, we suggest amending the second sentence of the proposed new paragraph BC11A as follows:

> "Paragraph 8 allows a first-time adopter to apply a new IFRS that is not yet mandatory if that IFRS permits early ~~adoption~~ application."

Finally, we believe that the heading before paragraph BC11 to IFRS 1 "Current version of IFRSs" does not reflect the content of the proposed paragraph BC11 according to which not the current, but a single version of an IFRS has to be applied. We recommend amending the heading before paragraph BC11.

Question 2: Not applicable, since the proposed amendment regards the Basis for Conclusions.

IFRS 3 *Business Combinations*

Scope exceptions for joint ventures

Question 1: We agree with the IASB's proposal. We concur with the IASB's intention to clarify the scope exclusion in paragraph 2(a) of IFRS 3 through the annual improvements process because it removes uncertainty about this issue on a timely basis.

Question 2: We agree with the Board's proposal.

IFRS 13 *Fair Value Measurement*

Scope of paragraph 52 (portfolio exception)

Question 1: We support the Board's proposal to clarify that the portfolio exception applies to all contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*.

However, we believe that the wording of the proposed paragraph BC1 should be improved. In some cases, "contracts to buy or sell a non financial item that can be settled net in cash or another financial instrument" are out of the scope of IAS 39 and IFRS 9. According to paragraph 5 of IAS 39 these are the 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". These contracts should, therefore, not be affected by the proposed amendments.

Question 2: We agree with the Board's proposal.

IAS 40 *Investment Property*

Clarifying the interrelationship of IFRS 3 *Business Combinations* and IAS 40 when classifying property as investment property or owner-occupied property

Question 1: We agree with the Board's proposal to clarify through the annual improvements process that IAS 40 and IFRS 3 are not mutually exclusive. We acknowledge the existing uncertainty about the interrelationship of these two standards when investment property with associated insignificant ancillary processes is acquired.

The original request received by the IFRS Interpretations Committee was to clarify whether the acquisition of a single investment property with relatively simple associated processes constitutes a business as defined in IFRS 3. We acknowledge that the IASB does not propose to respond to this request within the annual improvements process because the issue of determining whether an acquisition meets the definition of a business in Appendix A and paragraphs B7-B12 of IFRS 3 is not limited to the acquisition of investment property. We, therefore, share the view of the IFRS Interpretations Committee as reported in the September 2011 IFRIC Update that the IASB should address this broader issue as part of its post-implementation review of IFRS 3.

While we agree with the IASB's rationale that judgement is needed to distinguish a business combination from an acquisition of a single asset or a group of assets, we do not think that the question of exercising that judgement only arises if investment property with insignificant ancillary services, as specified in paragraph 11 of IAS 40, is acquired. We believe that the accounting for other transactions requires entities to exercise that judgement as well. Therefore, we deem that the IASB should not only amend IAS 40 but also other IFRSs where such judgement is needed, accordingly (e.g. IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets*).

With regard to the proposed heading before paragraph 6 of IAS 40 ‚Classification of property as investment property or owner-occupied property', we believe that it does not reflect the content of the proposed new paragraph 14A. The purpose of paragraph 14A is to clarify the interrelationship of IAS 40 and IFRS 3 while the proposed heading refers to the interrelationship of IAS 40 and IAS 16 *Property, Plant and Equipment*.

<u>Question 2</u>: We agree with the Board's proposal.