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DSR – öffentliche SITZUNGSUNTERLAGE

DSR-Sitzung:	**159. / 02.09.2011 / 14:45 – 15:45 Uhr**
TOP:	**06 – Annual Improvements Process (AIP) 2009-2011**
Thema:	**Entwurf der Stellungnahme an den IASB**
Papier:	**159_06b_AIP_DCL**

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Berlin, xx October 2011

Dear Hans,

Exposure Draft ED/2011/2 Improvements to IFRSs

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on the IASB Exposure Draft ED/2011/2 'Improvements to IFRSs' (herein referred to as the 'ED'). We appreciate the opportunity to respond to the ED under the fourth cycle of the Annual Improvements project.

Our detailed comments on the seven amendments proposed are set out in the appendix to this letter. In summary, we basically agree with most of the proposals contained in the ED. In some cases, though we agree in principle, we provide additional comments that could, from our point of view, further improve the amendments.

However, in a few cases we disagree with the proposed amendment or a part of the proposed amendment to the respective standard for reasons also set out in the appendix to this letter. These amendments are:

- IFRS 1 – Repeated application of IFRS 1: we disagree with the amendment as proposed since we consider it necessary to further differentiate the guidance proposed,
- IAS 1 – Consistency with the updated *Conceptual Framework*: we disagree with the overall approach of how changes to the Framework are reflected in IFRSs,
- IAS 32 – Income tax consequences of distributions to holders of an equity instrument, and of transaction costs of an equity transaction: while we agree with the proposed amendment to IAS 32, we nevertheless do not consider the issue to be solved with respect to income taxes on distributions to holders of an equity instrument, and

- IAS 34 – Interim financial reporting and segment information for total assets: we suggest retrospective instead of prospective application since the amendment otherwise may put undue burden on the reporting entities.

If you would like to discuss any aspects of this comment letter in more 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 Board's proposal to amend the IFRS 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***

- **Repeated application of IFRS 1**

Question 1: We partly disagree with the Board's proposal.

On the one hand we support the underlying assertion, that IFRS 1 may (need to) be applied repeatedly, not only once in an entity's very first IFRS financial statements.

On the other hand we do not support the undifferentiated requirement to apply IFRS 1 'when the entity's most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRSs, even if the entity applied … IFRS [1] in a reporting period before the period reported in the most recent previous annual financial statements.'

With respect to the proposed new paragraph 2A to be added to IFRS 1, we request a modification in order to consider a differentiation with respect to the following aspects:

- the number and the significance of differences between the entity's current annual financial statements
  a) as they are based on requirements that are not (in all respects) consistent with IFRSs, and
  b) if they were prepared in conformity with IFRSs in all respects;
- the number of annual reporting periods for which the entity did not provide financial statements in compliance with IFRSs consecutively before providing its first financial statements in conformity with IFRSs again.

Based on these considerations we recommend setting the rule for repeated application of IFRS 1 as follows:

1. Each time an entity prepares and presents financial statements that meet the

definition of its first IFRS financial statements, it shall be allowed to apply IFRSs in these financial statements retrospectively in accordance with IAS 8.

2. In case the following conditions are met over a period of time in which an entity's financial statements do not contain an explicit and unreserved statement of compliance with IFRSs (while before and after that period of time the entity's financial statements do contain such a compliance statement), the entity shall not be allowed to apply IFRS 1 in its first IFRS financial statements after that period of non-compliance:
   a) the period is short and
   b) the number and the significance of differences between the entity's first financial statements after the period of non-compliance are not material comparing preparation of the financial statements
      b1) based on the accounting that the first-time adopter used immediately before adopting IFRSs and
      b2) in conformity with IFRSs in all respects.
3. With respect to the previous condition (2.) and in case
   a) the period is not short and
   b) the number and the significance of the differences are material,

   an entity shall be allowed to apply IFRS 1 in its first IFRS financial statements after that period of non-compliance (even if the entity has applied IFRS 1 in a previous reporting period).

However, an entity shall not be required under any circumstances to apply IFRS 1 in case it prepares and presents financial statements that meet the definition of its first IFRS financial statements if the entity has applied IFRS 1 in a previous reporting period.

Further, we noticed that the *IFRS for SMEs* para. 35.2 prevents an entity from being a first-time adopter of *IFRS for SMEs* more than once. In this respect – from a conceptual point of view – we consider it not being acceptable to have a very restrictive rule in the *IFRS for SMEs* (para. 35.2), while the IASB intends to set up a corresponding rule for the repeated application of IFRS 1 which is rather non-restrictive. In this context, we propose that para 35.2 of the *IFRS for SMEs* should be subject to the forthcoming review of SMEs' experience in applying the *IFRS for SMEs* as announced in para. P16 of this standard.

We also suggest that the amendment to IFRS 1 with respect to its repeated application shall be clear with respect to the fact that the previous GAAP, which is defined in appendix A of IFRS 1 as the 'basis of accounting that a first-time adopter used immediately before adopting IFRSs' (emphasis omitted), includes *IFRS for SMEs*.

Question 2: We agree with the proposed effective date (application for annual periods beginning on or after 1 January 2013) and that earlier application is permitted, but must be disclosed.

- **Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before the transition date**

Question 1: We agree with the Board's proposal.

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

IAS 1 *Presentation of Financial Statements*

- **Clarification of requirements for comparative information**

Question 1: We agree with the Board's proposal.

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

- **Changes to reflect the *Conceptual Framework for Financial Reporting 2010***

Question 1: We disagree with the Board's proposal.

Rather, we propose the following:

(1) In principle, the completion of a phase in revising the *Conceptual Framework* should (simultaneously) result in *consequential amendments* to IFRSs – not only considering IAS 1.

(2) While we acknowledge that the implementation of such *consequential amendments* practically will be challenging, we alternatively would consider it acceptable to reflect the necessary amendments of the IFRSs in a timely manner.

(3) Disregarding of whether the above approach (1) or (2) will be applied, we consider it necessary that the changes of the IFRSs also provide effective dates and guidance with respect to the transition of the new rules.

(4) With regard to the specific changes the IASB proposes to reflect the *Conceptual Framework for Financial Reporting 2010* that was issued in September 2010, we hold the opinion that IAS 1 does not need to address any guidance depicted in the

Conceptual Framework referring to 'understandability' (here: QC32) and the 'objective of financial reporting'. Therefore, we suggest deleting any such (repeating) guidance in IAS 1.

Beside the above, we noted that the proposed changes to IAS 1 with respect to the update of the 'objective of financial statements' to be the 'objective of financial reporting" is likely to cause changes to IAS 1.19, .20, .23 and .24. However, the ED does not indicate such changes. We understand that the IASB may consider these changes as editorial consequential changes not being significant enough to be part of the ED. However, we consider it necessary to indicate in the ED all changes which will be triggered by AIP in order to have full visibility and do not support the omission of any changes in the context of AIP in the ED.

Question 2: Not applicable.

IAS 16 *Property, Plant and Equipment*

- **Classification of servicing equipment**

Question 1: We agree with the Board's proposal.

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

IAS 32 *Financial Instruments: Presentation*

- **Income tax consequences of distributions to holders of an equity instrument, and of transaction costs of an equity transaction**

Question 1: In general we agree with the Board's proposal to address the perceived inconsistency between IAS 12 and IAS 32 regarding the recognition of income tax relating to both dividend distributions to holders of an equity instrument and transaction costs of an equity transaction. Specifically we support the approach to amend IAS 32 to clarify that income tax relating to such distributions and transaction costs should be accounted for in accordance with IAS 12.

However, by referring in IAS 32 to IAS 12 with respect to the recognition of income tax relating to dividend distributions to holders of an equity instrument, it might still not be clear how to recognise such income tax:

- On the one hand it could be concluded that IAS 12.52B needs to be applied, which requires the recognition of the income tax consequences of dividends in profit or loss.

- On the other hand, IAS 12.52B states that 'the income tax consequences of dividends are recognised in profit or loss for the period as required by [IAS 12] paragraph 58 except to the extent that the tax consequences of dividends arise from the circumstances described in [IAS 12] paragraph 58(a) and (b)' (emphasis added). IAS 12.58 (a) establishes an exemption from the basic rule (recognition of income taxes in profit or loss): when taxes arise from 'a transaction or event which is recognised, in the same or a different period, outside profit or loss … directly in equity (see [IAS 12] paragraphs 61A to 65)'. According to IAS 12.61A, in such instances current tax shall be recognised directly in equity, when the item it relates to is recognised directly in equity.

Therefore, we suggest that the IASB addresses this issue within IAS 12 in the course of the next (fifth) cycle of its Annual Improvements Process (AIP; 2010-2012) in order to clarify what the appropriate treatment under this standard is.

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

IAS 34 *Interim Financial Reporting*

- **Interim financial reporting and segment information for total assets**

Question 1: We agree with the Board's proposal.

Question 2: We do not agree with the Board's proposal of prospective application. Rather, we propose to the IASB to require that an entity shall apply that amendment retrospectively for annual periods beginning on or after 1 January 2013 (with earlier application to be permitted). In case of changes with respect to segment information used in the management reporting system causing the measurement of total assets for a particular reportable segment to be different as compared to the past, an entity would need to recalculate 'total assets for this reportable segment' for reporting purposes in its first financial statements in which it applies the proposed amendment to IAS 34 (as information referring to the previous period). We consider this requirement to be undue and burdensome since this information is not regularly provided to the chief operating decision maker and thus, the recalculation has to be made only in order to provide a previous period information while no comparable information for the current reporting period is required. Thus, we propose retrospective application of the suggested amendment.