BUSINESSEUROPE

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

21 October 2011

Dear Sir or Madam,

RE: EXPOSURE DRAFT *IMPROVEMENTS TO IFRSs*

BUSINESSEUROPE welcomes the opportunity to respond to the exposure draft *Improvements to IFRSs*. Detailed comments are provided in the appendix to this letter.

We do not consider the proposed change regarding repeated application of IFRS 1 *First-time Adoption of International Financial Reporting Standards* is necessary. We strongly support proposed amendments to IAS 1 *Presentation of Financial Statements - Clarification of requirements for comparative information.* Considering that BUSINESSEUROPE is opposed to the revision of the Conceptual Framework on a piecemeal basis, we do not support the proposed amendment to IAS 1 to align with the revised Conceptual Framework such that "the objective of financial statements" would become "the objective of financial reporting".

As regards the proposed amendment to IAS 16 *Property, Plant and Equipment*, we do not consider it appropriate to include this as an Annual Improvement because wider issues are involved. We support the proposed clarification that income tax relating to distributions to holders of an equity instrument and income tax relating to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*, rather than specified in IAS 32 (and IFRIC 2). And lastly, we support the proposed amendment to IAS 34 *Interim Financial Reporting*.

We remain at your disposal should you wish to discuss this subject further.

Yours sincerely,

Jérôme P. Chauvin
Director
Legal Affairs Department
Internal Market Department

APPENDIX

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

We do not support the proposed change regarding repeated application of IFRS 1 which we do not believe is necessary. For proposals such as this, it is important to consider the position of entities operating in jurisdictions with an endorsement mechanism. Entities are required to make a statement of compliance with endorsed IFRS and may not be able to assert compliance with "full" IFRS simply because of the time necessary to complete the process. If endorsement was achieved in the following year, the proposed wording in paragraph 2A would require such entities to apply IFRS 1 in its next financial statements.

We have no objection to the proposed change relating to borrowing costs, which appears to be appropriate and practical.

Proposed amendments to IAS 1 *Presentation of Financial Statements*

Clarification of requirements for comparative information

Based on our understanding of the proposals, we strongly support these amendments.

European companies which are SEC filers must present an additional (i.e. beyond minimum IFRS requirements) comparative year for the statement of income and statement of comprehensive income (or a single statement), cash flow statement and statement of changes in equity (and related notes). We understand these proposals will ensure that:

(i) as long as such additional information is prepared in accordance with IFRS, the financial statements as a whole will still be considered to comply with IFRS even if a full set of statements is not presented for comparative periods beyond the minimum IFRS requirements;

(ii) when additional comparative information is provided and there is a change in accounting policy or other retrospective adjustment or reclassification, an entity should adjust that additional comparative information in accordance with the new accounting policy as required by paragraph 22 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* which refers to the earliest period presented and <u>not</u> the earliest period required to be presented under IFRS. Therefore for a change in accounting policy implemented from January 1, 2013 with retrospective application for an entity with a December 31 year end, "the earliest period presented" by an SEC filer would be 2011 so the transition date is January 1, 2011; and

(iii) when an entity changes accounting policy or makes other retrospective adjustment or reclassification, the opening statement of financial position required to be presented is that as at the beginning of the comparative period <u>required by IFRS</u>, regardless of whether an entity's financial statements present comparative information for an earlier period, and that related notes are not required for the statement of financial position at the beginning of the comparative period required by IFRS. Therefore, in our example above, an entity would not be required to provide a statement of financial position at January 1, 2011 nor notes supporting the December 31, 2011 statement of financial position.

These changes also will help users by reducing unnecessary information in the financial statements. We also agree with the proposed transitional requirements and effective date as these will ensure that there is consistency in treatment for the new and revised standards issued by the IASB this year.

It is important however, that the qualifier paragraph 12 in IAS 1 is applied to <u>all</u> references to the statement of comprehensive income (as in proposed paragraphs 38A and 38B) in order that an entity does not have to report a single statement of comprehensive income for comparative periods if it chooses to report a separate income statement for the current period.

Changes to reflect the Conceptual Framework for Financial Reporting 2010

BUSINESSEUROPE and EFRAG have been opposed to the revision of the Conceptual Framework on a piecemeal basis. We therefore regret that the framework was amended in September 2010 to incorporate the results of Phase A of the project (*The objective of general purpose financial reporting* and *Qualitative characteristics of useful financial information*). For example, the boundaries of financial reporting have not yet been addressed (Phase E). We therefore do not support the proposed amendment to IAS 1 to align with the revised Conceptual Framework such that "the objective of <u>financial statements</u>" would become "the objective of <u>financial reporting</u>" as this is premature.

We should also point out a discrepancy in the proposed amendments to paragraph 7 which update that paragraph's reference to the Conceptual Framework as issued in 2010. In both texts the assumption that users of financial statements/reports have a reasonable knowledge of accounting has been removed; however the Glossary of Terms retains this assumption in the definition of "understandability". As the IASB has not explained the need for this deletion in the Basis for Conclusions to the 2010 Conceptual Framework or the exposure draft and discussion paper that preceded it, we assume the deletion must be an oversight.

Proposed amendment to IAS 16 *Property, Plant and Equipment*

We have various concerns about this proposed amendment. Firstly it can be interpreted to have a broader meaning, e.g. for companies that have a service organization for the benefit of its customers; such companies have spare parts, stand-by equipment and servicing equipment for more than one period for the potential use in their customers' assets and these should remain classified as inventory. There will also be practicability issues for companies where it is unclear when these items are going to be used. Companies also buy generic spare parts that can be used on several different lines but which should be considered inventory even if they intend to use them for more than one year. We therefore do not consider it appropriate to include this proposal as an Annual Improvement because of these wider issues.

Proposed amendment to IAS 32 *Financial Instruments: Presentation* (and IFRIC 2)

We support the proposed clarification that income tax relating to distributions to holders of an equity instrument and income tax relating to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*, rather than specified in IAS 32 (and IFRIC 2). This avoids any risk of the accounting treatment for the related income tax diverging from the accounting for the transaction or event itself, contrary to paragraph 57 of IAS 12. We also agree with the proposed transitional requirements and effective date.

Proposed amendment to IAS 34 *Interim Financial Reporting*

We support the proposed amendment to IAS 34 such that total assets for a segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. However, we would describe the proposal as correcting an omission when IFRS 8 *Operating Segments* was published rather than "to enhance consistency" with the requirements in IFRS 8. We support the effective date of January 1, 2013 with earlier application permitted but consider that retrospective application should be allowed; the proposal for prospective application may result in some entities having to provide unnecessary disclosures of comparative information in the first year of their IFRS adoption.

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