BUSINESSEUROPE

International Accounting Standards
Board (IASB)
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

20 August 2019

Dear Board Member,

Re: ED/2019/2 Annual Improvements Project (Cycle 2018-2020)

BUSINESSEUROPE welcomes the opportunity to comment on the Exposure Draft regarding the AIP 2018-2020. While we overall agree to the proposed amendments, we have some specific remarks regarding the amendments to IFRS 9 and IFRS 16, which you find in the annex of this letter.

With regard to the amendments to IFRS 1 we are concerned that the proposal would introduce some unintended consequences. We therefore ask the board to reconsider the location of the amendments and propose to relocate it to IFRS 1.D13.

Should you wish to discuss any of these comments, please do not hesitate to contact us.

Yours sincerely,

Pedro Oliveira
Director
Legal Affairs Department

BUSINESSEUROPE

ANNEX

Amendment to IFRS 1

BUSINESSEUROPE agrees in principle with the Board's proposal to include the cumulative translation differences (CTD) in the exemption of IFRS 1.D16. However, we wonder whether this amendment might introduce some unintended consequences.

By including the proposed amendments in IFRS 1.D16, first-time adopters would have the option either to measure its assets, liabilities and the CTD at the carrying amount that would be included in the parent's statement (IFRS 1.D16(a)) or at the carrying amounts otherwise required by IFRS 1. It follows that a first-time adopter that chooses to present its CTD at the amount of zero as permitted by IFRS 1.D13 is precluded from choosing to apply the revised IFRS 1.D16(a) even in respect of assets and liabilities. In our view, it makes sense for first-time adopters to be able to choose the carrying amount of the parent for assets and liabilities while still being able to choose a "zero" approach for the CTDs. This is because it will not always be possible to identify the CTDs attributable to the first-time adopter from the parents' balance sheet. We therefore ask the board to remove the proposed amendment from IFRS 1.D16 and relocate it to IFRS 1.D13, thus allowing first-time adopters to apply the different approaches irrespective of the option of IFRS 1.D16 chosen.

With regard to the transitional provisions, we note that previous first-time adopters are not eligible for a retrospective application of the standard. While the arguments presented in ED/IFRS 1.BC5 are fair, we wonder whether there may be situations in which a retrospective application for previous first-time adopters may make more sense. A first-time adopter may have chosen to present the CTD at the amount of zero in accordance with IFRS 1.D13 because a full retrospective application may have required too much effort and judgement. Hence, the existing CTD will be most likely be attributed to retained earnings applying the current version of IFRS 1.D16(a). In a subsequent disposal of a foreign operation, the gain or loss would not include any amounts that were previously recognized within the CTD of the parent entity.

With reference to ED/IFRS 1.BC5(b), we wonder whether it is even more confusing to see differing gains or losses resulting from a disposal of a foreign operation between the first-time adopter and its parent entity. We think there may be situations in which a one-time adjustment within equity is more easily explained than a potentially recurring (in case of the disposal of multiple foreign operations) difference in the gains or losses upon disposal.

Hence, we are of the opinion, that the transitional provisions should be reconsidered, allowing for voluntary retrospective application of the amendment of previous first-time adopters.

Amendment to IFRS 9

We agree with the amendment. We think that the amendment should also be made for IAS 39 preserving coherence in accounting for financial instruments, as this standard is still relevant for some industries.

Amendment to IFRS 16

We consider that the current example 13 has caused confusion among preparers as one could conclude that reimbursements related to leasehold improvements are never lease incentives. Therefore, the Board should consider how to improve the guidance on lease incentives in a more comprehensive manner.

In the interim, the proposed deletion of the text from illustrative example 13 might reduce the potential for misunderstanding. However, we consider that clarification of the example by providing the explanation and context included in BC2 of the ED would be preferable to simple deletion.

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