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RE: EFRAG's draft comment letter on the IASB's Exposure Draft *Improvements to IFRSs*

The Committee of European Securities Regulators (CESR), through its standing committee on financial reporting (CESR-Fin), has considered EFRAG's draft comment letter on the IASB's Exposure Draft (ED) *Improvements to IFRSs*.

We thank you for this opportunity to comment on your draft letter and are pleased to provide you with the following observations.

In general, CESR supports the amendments proposed in the ED as it agrees that these changes constitute an improvement to IFRS. This said, CESR believes the IASB's improvement projects should restrict themselves to addressing only relevant and worthwhile amendments that are truly suitable for such projects and should avoid suggesting ones that are either too major or too minor in nature. In this particular ED, CESR has identified 3 separate issues that seem inappropriate for an improvements project:

- The replacement of "in accordance with IAS 39" by the expression "at fair value through profit and loss" in IAS 27.38(b) (issue 10). CESR considers this an important change on which the IASB should consult in a separate ED (see (b) below);
- The replacement of the terminology for some of the qualitative characteristics in IAS 8 with new terminology to be adopted in the as yet unissued revised Framework (issue 9). CESR agrees with EFRAG that these kinds of essential amendments to IFRS should be proposed as part of or alongside the *Framework*-ED.
- The replacement of the expression "fair value" by "value" in the guidance of IFRIC 13 (issue 15). CESR is of the opinion that this change is too minor to be included in this ED (the desired result is probably not worth the change and in this particular case would actually appear to make the guidance more unclear, thus failing to meet its original objective of clarifying the text).

CESR would like to invite the IASB to take greater care in selecting the issues it addresses through "improvement to IFRS" projects and to limit its proposals to issues of an appropriate scope that genuinely need to be fixed.

On the whole though CESR is supportive of EFRAG's comment letter but we would like to draw your attention additionally to the following items:

(a) IFRS 3 (2008) *Business Combinations* – Transition requirements for consequential amendments of IFRS 3 to IFRS 7, IAS 32 and IAS 39 for contingent consideration

from a business combination that occurred before the effective date of the revised standard

CESR shares EFRAG's concerns regarding the potential legal implications of the withdrawal of the 2004 version of IFRS 3 *Business Combinations*. CESR therefore supports EFRAG's suggestion of inserting the wording of the relevant paragraphs in the 'old' version of IFRS 3 into the revised version rather than only making a reference to these paragraphs, as proposed by the IASB.

This said, CESR is wondering whether this is the first time that this issue has been raised. CESR would therefore invite the IASB to explore whether any of the current IFRSs still refer to standards that have subsequently been withdrawn.

In addition, CESR would like to express its support for EFRAG's request to the IASB to develop a clear definition of what is really meant by "prospective" and "retrospective" application and how each should be applied in practice.

(b) IAS 27 *Consolidated and Separate Financial Statements* – impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor

Like EFRAG, CESR considers the replacement of the word "*in accordance with IAS 39*" by "*at fair value through profit or loss*" in paragraph 38(b) of IAS 27 a major change in the standard which would seem to limit the choice of accounting for investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of an investor to fair value through profit and loss. However under the current version of IAS 39 such investments can be measured either at fair value through profit and loss or at fair value through Other Comprehensive Income. Yet, the IASB does not explain the reason for making this change in its Basis for Conclusions.

Therefore, CESR would have the IASB at the very least explain its reasons for making such an important change before proceeding any further with it but in any event believes, as stated above, that such amendments should be exposed not as part of an "*Improvements to IFRSs*" ED but rather as a separate consultation document. Like EFRAG CESR is of the view that in this ED the IASB should only seek to clarify that, in its separate financial statements, an issuer shall apply the provisions of IAS 39 to test its investments in subsidiaries, jointly controlled entities and associates for impairment.

(c) IAS 40 *Investment Property* – Disposal of an Investment Property

CESR welcomes EFRAG's support for the proposal to amend IAS 40 *Investment Property* to require IFRS 5 disclosures when an entity decides to dispose of an investment property even when the criteria to be classified as held for sale are not met.

(d) IFRIC 13 Customer Loyalty Programmes – Fair value of award credits

Unlike EFRAG, CESR doubts that the proposed amendment replacing the expression "fair value" by "value" in paragraph AG2 of IFRIC 13 *Customer Loyalty Programmes* is an improvement. Indeed, the use of the word "value" does not seem any clearer than the use of the word "fair value". CESR consequently does not support this proposal. Also, as noted above, CESR believes that the desired result is probably not worth the change on this issue, and questions whether the IASB should have included this amendment in its improvements project

I would be happy to discuss all or any of these issues further with you.

Yours sincerely,

Fernando Restoy

Chair of CESR-Fin