European Securities and Markets Authority

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ESMA/2014/275

Mr Hans Hoogervorst
International Accounting Standards Board
30 Cannon Street
London
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United Kingdom

The IASB's Exposure Draft Annual Improvements to IFRSs 2012 – 2014 Cycle

Dear Mr Hoogervorst,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to contribute to the IASB's due process regarding the Exposure Draft ('ED') *Annual Improvements to IFRSs 2012-2014 Cycle*. We are pleased to provide you with the following comments with the aim of improving the transparency and decision usefulness of financial statements and the enforceability of IFRSs.

ESMA welcomes the IASB's proposals to address practical issues submitted by constituents, including those submitted by us and we believe that the proposals set out in the ED contribute to improving financial reporting. We agree that all the issues addressed by the IASB included in the ED meet the criteria of the IASB *Due Process Handbook* and believe they should be resolved as part of the annual improvements project. We are therefore generally supportive of the amendments in the ED.

Our detailed comments on the ED are set out in the appendix I to this letter. Please do not hesitate to contact us should you wish to discuss all or any of the issues we have raised.

Yours sincerely,

Steven Maijoor
Chair
European Securities and Markets Authority

Appendix I – ESMA's detailed answers to the questions in the IASB's Annual Improvements to IFRSs 2012-2014 Cycle

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?*

Issue 1: Proposed Amendment to IFRS 5 - Non-current assets held for sale and discontinued operations

1. ESMA supports the proposed amendments to IFRS 5 which address concerns[1] relating to the impact of a change in disposal method on the classification of assets held for sale and we believe they bring clarity to the standard.

2. However, we would like to draw your attention to some inconsistencies, which, if not corrected might lead to diversity in practice. In order to ensure consistent application of the standard, we would like to recommend the IASB to ensure that the notions 'held for distribution to owners' and 'cost for distribution' are added/amended to all relevant parts of the standard.

3. For illustration purposes, we have included below some examples of inconsistencies we have identified in relation to the notion of 'held for distribution to owners', nevertheless there are other parts of the standard which might need to be amended:
   a. While not mentioned in the name and the 'Objective' of IFRS 5, paragraph 5A includes in the scope the non-current assets (or disposal group) classified as 'held for distribution to owners'. The definition of discontinued operation has not been amended to include the assets 'held for distribution to owners' and no further reference is made to it either in paragraphs 32, 36(A), 37, 38, 39, 40, 41 and 42 of IFRS 5.
   b. There is an inconsistency in the use of the notion between the titles of various part of the standard: title on classification above paragraph 6 of IFRS 5 includes the notion; title on measurement above paragraph 15 does include it and, and the ED proposes to include "to a plan of distribution" in the heading above paragraph 26.
   c. As paragraphs 7 and 9 only deal with criteria for a 'held for sale' classification, Paragraph 42 needs to be amended to include a reference to paragraph 26A and paragraph 28 should be further amended to include reference to paragraph 12A which deals with the criteria for an asset to be classified as 'held for distribution'.

[1] ESMA Comment letter to IFRS IC Agenda item request: Discontinued operations - Change in disposal method (ESMA/2013/244)

4. Furthermore we would suggest the inclusion in the standard of a definition for ‘costs to distribute’ in addition to the ‘costs to sell’ as we believe these costs might be different from the costs to sell and could be significant to transactions.

5. We would recommend the IASB to draft more explicitly that the change of a plan does not trigger any re-measurement provided that the criteria in paragraphs 6 to 12A of IFRS 5 are still met.

6. Finally, we suggest the IASB to move the last part of the first sentence in paragraph 26B (‘the entity shall not follow the guidance in paragraphs 27-29 to account for this change’) to the end of the paragraph to improve the clarity of the requirements applicable in these specific circumstances.

Issues 2 and 3: Proposed amendments to IFRS 7 - Financial Instruments: Disclosure

7. ESMA agrees with the amendment that adds guidance which clarifies how an entity should apply paragraph 42C of IFRS 7 for servicing contracts. As clarified in this ED, it is possible to derecognise a financial asset under IAS 39 - *Financial Instruments: Recognition and Measurement* or IFRS 9 - *Financial Instruments* and to qualify as ‘continuing involvement’ for disclosure purposes as per IFRS 7.

8. We would suggest the IASB to clearly state in paragraph B30A of IFRS 7 the principles to be applied in determining the existence, or not, of continuing involvement rather than providing an example of some of the possible considerations as currently proposed. We would also propose to add at the end of the sentence starting with ‘Similarly’ the following part ‘unless the fee is fully independent of the performance of the financial asset (or cash flow collected from the financial asset)’.

Issue 4: Proposed amendments to IAS 19 - Employee Benefits

9. ESMA welcomes the amendments proposed by the IASB and believes that these will solve the enforceability issue raised in our comment letter[2] in relation to the issue of a regional market sharing the same currency.

10. However, we would like to reiterate our request for clarification on whether the IAS 19 requirements for regional markets sharing the same currency also apply in the case where a currency is pegged to another currency.

[2] ESMA comment letter to IFRS IC Amendment to IAS 19 *Employee benefits: Regional market issue* (ESMA/2013/815)

Issue 5: Proposed amendments to IAS 34 - Interim Financial Reporting

11. ESMA welcomes the amendment clarifying the meaning of disclosure of information 'elsewhere in the interim financial report' and considers that requiring an explicit cross-reference is a positive development. However, this amendment will allow presenting all disclosures in other parts of the interim financial report whereas this is only allowed for IFRS 7 risk disclosures for the annual financial statements. In this context we wonder whether the proposed amendments are not too broad.

12. ESMA is broadly supportive of these proposed amendments as a short-term solution; nevertheless, we would encourage the IASB to ensure that the requirements related to the preparation of interim financial report ensure that the characteristic of 'understandability' is preserved. While we agree to the use of cross-referencing, we believe it is important that the interim financial report remains readable and understandable as a whole and therefore, it needs to be safeguarded from a potential excessive use of cross-referencing.

13. We also believe that the amendment does not solve the tensions between IAS 34 and IAS 1 - *Presentation of Financial Statements,* as the latter does not allow providing disclosures outside the financial statements unless another standard explicitly requires so. Although these differences in approach date back the proposed amendments, we encourage the IASB to considering aligning them as part of the discussions in the Disclosure initiative project which should address where the relevant information is best placed.

Question 2 – Do you agree with the proposed transition provisions and effective date for the issue as described in the Exposure Draft? If not, why and what alternative do you propose?

14. ESMA agrees with the proposed transitional provisions and effective dates except for the following issue.

Issue 1: Proposed amendments to IFRS 5 - Non-current assets held for sale and discontinued operations

15. ESMA promotes the retrospective application of new or amended provisions in a standard in the interest of consistency of presentation and comparability. ESMA disagree with the proposal to apply the amendments to IFRS prospectively. We do not believe this amendment could result in the use of hindsight, as an entity would most likely have already collected all the relevant information at the time of the change in the plan.