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EFRAG's draft response on the IASB's Exposure Draft *Improvements to IFRS*

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to safeguarding the stability of the European Union's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as by enhancing investor protection.

ESMA has considered through its Standing Committee on Corporate Reporting EFRAG's draft response to the IASB's Exposure Draft (ED) *Improvements to IFRS*. We thank you for this opportunity to contribute to EFRAG's due process and to comment on your draft response. We are pleased to provide you with the following comments aimed at improving the decision-usefulness of financial statements and the transparency and enforceability of IFRSs.

For the detailed comments we refer to our comment letter to the IASB's ED, which we attach to this letter.

ESMA, like EFRAG, is generally supportive of the proposed amendments but does not share EFRAG's position on the following:

— *IFRS 1 – Clarification of borrowing costs exemption*

In its draft comment letter EFRAG states in paragraph 7 that it is not clear whether paragraph 23(a) of appendix D refers to borrowing costs as defined by IFRS or those defined under an entity's previous GAAP. We believe that paragraph D23(a) does refer to the entity's 'previous GAAP'.

We would welcome if EFRAG could further explain their comment by drafting a proposal how the IASB could improve paragraph D23(a).

— *IAS 12 – Tax effect of distributions to holders of equity instruments*

EFRAG notes to see an inconsistency between paragraphs 52B and 58 and 61A of IAS 12 – *Income Taxes*. As the apparent inconsistency is not clear to us we would welcome if EFRAG could elaborate on that. Indeed, IAS 12 paragraph 52B states that the income tax consequences of dividends

are recognised when a liability to pay the dividend is recognised and are recognised in profit and loss in the same period except for the circumstances of paragraph 58. Paragraphs 58 and 61A state that current and deferred tax shall be recognised outside profit and loss if the tax relates to items that are recognised outside profit and loss.

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

Yours sincerely



Julie Gallo
Chair of ESMA's Corporate Reporting Standing Committee