

**IASB
Hans Hoogervorst
Cannon Street 30
London EC4M 6XH
United Kingdom**

The IASB's Exposure Draft *Annual Improvements to IFRSs 2011-2013 Cycle*

Dear Mr Hoogervorst,

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to enhancing the protection of investors and promoting stable and well-functioning financial markets in the European Union (EU). ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

ESMA has considered the IASB's Exposure Draft (ED) *Annual Improvements to IFRSs 2011-2013 Cycle*. ESMA thanks you for this opportunity to contribute to the IASB's due process. ESMA is pleased to provide you with the following comments aimed at improving the decision-usefulness of financial statements and the transparency and enforceability of IFRSs.

As we believe that the proposals set out in the ED contribute to improving financial reporting, we are generally supportive of the amendments in the ED. ESMA agrees 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.

Our detailed comments on the ED are set out in the appendix to this letter. We would be happy to discuss all or any of these issues should you wish.



Yours sincerely,

A handwritten signature in black ink, consisting of a large, stylized 'S' followed by a horizontal line and a short vertical stroke.

Steven Maijoor
Chair
ESMA

A handwritten signature in blue ink, appearing to read 'Julie Galbo' in a cursive style.

Julie Galbo
Chair
ESMA's Corporate Reporting Standing Committee

APPENDIX – ESMA’s detailed answers to the questions in the IASB’s *Annual Improvements to IFRSs 2011-2013 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: IFRS 1 – First-time Adoption of International Financial Reporting Standards

1. ESMA supports the proposed amendment as it clarifies the meaning of effective IFRSs. ESMA supports the IASB’s proposal to address the issue by providing additional explanation in the Basis for Conclusions as some constituents perceived an apparent conflict between paragraph 7 of IFRS 1 – *First-Time Adoption of International Financial Reporting Standards* and IFRS 1 paragraph BC 11.

Issue 2: IFRS 3 – Business Combinations

2. ESMA supports the proposed amendment as it clarifies the scope exception in IFRS 3 – *Business Combinations* with regards to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself for the reasons included in the proposal.
3. Additionally, ESMA is of the view that the issue should be timely addressed within the annual improvements project as proposed and not be delayed until the planned post-implementation review of IFRS 3.

Issue 3: IFRS 13 – Fair Value Measurement

4. ESMA supports the proposed amendment as it clarifies that the scope exception applies to all contracts within the scope of IFRS 9 – *Financial Instruments: Classification and Measurement* and IAS 39 – *Recognition and Measurement*. While agreeing with the proposed amendments, ESMA is of the view that the proposed wording of the Basis for Conclusions can be improved in order to make the amendment clearer as to which financial instruments are covered by this amendment.

Issue 4: IAS 40 – Investment Property

5. ESMA agrees with the proposed amendment as it provides additional clarity in IAS 40 – *Investment Property*.

6. ESMA agrees with the proposed amendment and believes that its speedy application would contribute to improving financial reporting. We however believe that the IASB should address the distinction between asset acquisitions and business combinations more comprehensively, for example as part of the IFRS 3 post-implementation review.

ESMA would see merit in providing a broader clarification in IFRS 3, as similar transactions are not limited to investment properties. The distinction between asset acquisition and business combination is a significant issue relevant to a number of issues that recently have been addressed by several (proposed) amendments to IFRS (such as the *Accounting for Contingent Considerations in a business combination* amendments in the 2010-2012 cycle of the annual improvements project).

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

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

Issue 4: IAS 40 – Investment Property

8. ESMA disagrees with the proposal to apply the amendments to IAS 40 – *Investment Property* prospectively. ESMA believes that it is important that investors are informed of the financial performance and position of an entity on a consistent basis. ESMA believes that retrospective application should be required as we think that not providing comparative information runs the risk of misleading investors on the development of the entity's financial position and performance.
9. ESMA thinks that issuers have collected relevant information regarding the fair value of the assets being acquired and that reliance on hindsight is limited and outweighed by the benefits of providing consistent and comparable information.