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Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
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9 March 2014

Dear Mr Hoogervorst

Exposure Draft ED 2013/11 – Annual Improvements to IFRSs 2012-2014 Cycle

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's (the IASB's) Exposure Draft *Annual Improvements to IFRSs 2012-2014 Cycle* ('the exposure draft').

We continue to be of the view that the Annual Improvement Project is an efficient and effective means of dealing with isolated issues within IFRSs that are leading to divergent practice.

In respect of the 2012-2014 cycle of annual improvements, for the following reasons we are concerned by the proposed amendments to IFRS 7 (on servicing contracts), to IAS 19 (on the regional market issue) and to IAS 34 (on information 'elsewhere in the interim financial report').

- We question whether disclosure of market rate servicing contracts is consistent with the purpose of the 2010 amendments to IFRS 7 on transfers of financial assets and whether it will provide valuable information to users.
- We believe that the issue of discount rates on defined benefit obligations should be considered more thoroughly and that the proposed amendment to IAS 19 may not be appropriate for all jurisdictions.
- We recommend that the Board liaise with the International Auditing and Assurance Standards Board (IAASB) before finalising the amendment to IAS 34 to ensure that no conflict between accounting and assurance standards arises.

Our detailed responses to the questions in the invitation to comment are included in the Appendix to this letter.

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If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader

Deloitte.

Appendix

Question 1 – Proposed amendments

Proposed amendment to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Changes in methods of disposal

We agree with the proposal to clarify that the requirements of paragraphs 27-29 of IFRS 5 do not apply to an asset (or disposal group) that is reclassified directly between being held for sale and held for distribution.

As an editorial point, we note that proposed paragraph 44K should refer to amendments to paragraphs 26-29 (rather than, per the exposure draft, paragraphs 27-29).

Proposed amendment to IFRS 7 Financial Instruments: Disclosure – Servicing Contracts

Whilst we agree that, in a literal sense, a fee earned for servicing a transferred financial asset might be considered continuing involvement in that asset, we question whether a requirement to disclose remuneration for future services (particularly if this is at a market level) is consistent with the purpose of the 2010 amendments to IFRS 7 on transfers of financial assets. Paragraph BC65L of the Basis for Conclusions on IFRS 7 describes a focus on the entity's risk exposure and on possible requirements to repurchase derecognised financial assets. A normal servicing arrangement is quite different from such a requirement and we question the usefulness of disclosure of an arrangement that may be no different from other servicing contracts that an entity enters into in respect of assets that it did not previously hold.

In addition, we note that it is unfortunate that the term 'continuing involvement' is included in both IFRS 9/IAS 39 (in the context of derecognition) and in IFRS 7 (in the context of disclosures) with different meanings. In the former case, continuing involvement (as described in paragraph 3.2.16 of IFRS 9 and paragraph 30 of IAS 39) refers to circumstances in which an entity "neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset" and hence continues to recognise that asset to the extent of its continuing involvement. Paragraph 42E of IFRS 7, on the other hand, uses the term to refer to circumstances in which full derecognition is achieved. We recommend that the distinction between the two be made clearer by addition of a note to that effect in each standard in order to avoid any implication that an ongoing servicing arrangement would preclude full derecognition of a financial asset.

Proposed amendment to IFRS 7 Financial Instruments: Disclosure – Applicability of the amendments to IFRS 7 to condensed interim financial statements

We agree with the proposed amendment, but note that the confusion over the current transitional provisions of the IFRS 7 amendments on offsetting highlights a wider issue over the extent to which disclosures are required in interim financial statements when a new or amended standard is adopted for the first time. This issue is pervasive to interim financial statements and the level of disclosure on the nature and effect of a change in accounting policy (as required by paragraph 16A(a) of IAS 34) is currently unclear. In particular, it is unclear whether disclosures explaining the application of the new accounting policy that will be included in the forthcoming annual financial statements are also required in interim financial statements.

We recommend that the Board consider an amendment to IAS 34 to clarify the level of disclosure required in interim financial statements when accounting policies change and, specifically, whether

explanatory disclosures that will be included in annual financial statements are required. These issues are is likely to become more significant as major new standards on, for example, revenue from contracts with customers are adopted.

Proposed amendment to IAS 19 Employee Benefits – Discount rate: regional market issue

We agree that in the context of a shared currency region such as the Eurozone the approach suggested in the exposure draft (i.e., the use of a discount rate based on high quality corporate bonds denominated in the same currency as the defined benefit obligation, rather than necessarily bonds issued in the same country as the reporting entity) would generally be appropriate. However, this may not be the case where a defined benefit obligation is denominated in a currency issued in an economy that is distinct from the one in which the reporting entity operates rather than the currency of a group of countries including that of the reporting entity. For example, it is common for Zimbabwean entities to denominate employee payments (including those from defined benefit schemes) in U.S. dollars but discounting such an obligation using yields from the domestic U.S. bond market would result in a rate that is inconsistent with the inflation rate experienced in Zimbabwe (and, therefore, apparently not mutually compatible as required by paragraph 78 of IAS 19).

We believe that circumstances such as these should be considered in determining whether the proposed amendment to IAS 19 is suitable for differing (particularly developing) economies. If it is not deemed to be suitable in all economies, we recommend that an agenda decision from the IFRS Interpretations Committee would be an appropriate short-term measure to address specifically the Eurozone ahead of standard setting activity covering all jurisdictions.

More generally, we believe that in the absence of a clear concept underpinning the required discount rate for defined benefit obligations this is an area in which issues will continue to arise in a variety of jurisdictions. As such, we believe that (contrary to the statement in the December 2013 IASB Update) further standard setting activity is necessary in this area.

We also believe that the wording of the proposed amendment could be clarified. In particular, the proposed amended paragraph 83 of IAS 19 does not specify:

- whether a 'blended rate' of yields on bonds in the appropriate currency must always be used, or only once it is determined that there is no deep market in high quality corporate bonds in the entity's own jurisdiction; or
- if there is no deep market in high quality corporate bonds, whether the yield on the highest rated government bonds denominated in the appropriate currency or the yield on government bonds from the entity's jurisdiction should be used.

Proposed amendment to IAS 34 Interim Financial Reporting – Disclosure of information 'elsewhere in the interim financial report'

We are concerned that the proposed amendment to IAS 34 does not achieve the intended increase in clarity as it introduces the concept of information being available "on the same terms" as the interim financial statements without explanation of how this is to be assessed. In addition, it is unclear whether the reference to "users" should be taken to mean anyone who has access to the interim financial statements or only those that might be considered primary users of general purpose financial reporting under the Conceptual Framework.

In addition, we note that the incorporation of information via cross-reference is not permitted by some capital markets regulators and may be problematic in the context of defining the scope of an audit or review opinion on interim financial statements. In particular, an auditor reviewing interim financial statements must obtain evidence to support their review; for information elsewhere in the interim financial report their responsibility is limited to reading the information for consistency with the interim financial statements and apparent misstatement based on their knowledge from their review. If information required by IAS 34 were included elsewhere in the interim financial report, the extent to which the wider interim financial report has been assured or not could be unclear.

For this reason, we recommend that the Board liaise with the International Auditing and Assurance Standards Board (IAASB) before finalising this amendment to ensure that no conflict between accounting and assurance standards arises.

Question 2 – Transition provisions and effective date

We agree with the proposed effective dates and transition provisions of the proposed amendments, although we recommend that the reference to retrospective application be removed from the proposed paragraph 44Z of IFRS 7 as this seems inconsistent with a statement that the amendments need not be applied for comparative periods presented.