

6 April 2017

Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London
United Kingdom
EC4M 6XH

Dear Mr Hoogervorst

Exposure draft 2017/1 – Annual Improvements to IFRS Standards 2015-2017 Cycle

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ('the IASB's') Exposure Draft *Annual Improvements to IFRS Standards 2015-2017 Cycle* ('the exposure draft').

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

In general, we agree with the aims of the amendments proposed in the exposure draft, but are concerned that the proposed amendments do not provide sufficient guidance. A reader should not need to either refer to the Basis for Conclusions of an amendment or to have knowledge of the issues that gave rise to it to understand the effect of that amendment. In particular, we do not believe that the proposed amendment to IAS 28 on long-term interests in an associate or joint venture is understandable without a clear description of the steps required to reflect impairment of such balances.

Our detailed responses to the questions in the invitation to comment, together with suggested clarifications to the draft amendments are included in the Appendix to this letter.

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

Appendix

Question 1 – Proposed amendments

Do you agree with the Board’s proposal to amend the Standards in the manner described in the Exposure Draft?

If not, why, and what alternative do you propose?

IAS 12 – Income tax consequences of payments on financial instruments classified as equity

We agree with the proposed amendment, but are concerned that the undefined term ‘dividends’ in proposed paragraph 58A will not be understood from the standard itself. A reader can only understand that term by reference to the discussion in paragraph BC5 of the Basis for Conclusions on the exposure draft, which states the need for an entity to determine “whether payments on such instruments are **distributions of profits (ie dividends)**” or to the definition of ‘dividend’ in IFRS 9. We recommend that this reference to ‘distribution of profits’ be added to proposed paragraph 58A as the term ‘dividend’ is not defined in IAS 12 and is used to describe differing transactions often in the context of jurisdictional legal requirements.

Similarly, the statement that dividends “are linked more directly to past transactions or events than to distributions to owners” could be made clearer with an explanation that the ‘past transactions or events’ referred to are those generating the profit being distributed via dividend.

We also note that the proposed amendment derived from a submission to the IFRS Interpretations Committee on the presentation of the tax effect of payments on perpetual bonds classified as equity. We recommend that an illustrative example of such a transaction be added to clarify the effect of the proposed amendment.

IAS 23 – Borrowing costs eligible for capitalisation

Again, we agree with the intent of the proposed amendment but recommend that it could be made clearer by inclusion of wording currently in the Basis for Conclusions on the exposure draft as follows:

“An entity shall exclude from this calculation borrowings and interest thereon made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. If any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing then becomes part of the funds that an entity borrows generally.”

IAS 28 – Long-term interests in an associate or joint venture

We are concerned that, without additional clarification, the intended effect of this amendment will not be understood. We recommend that it be clarified (by both clearer explanation and the addition of appropriate illustrative examples) that impairment of interests in other financial instruments issued by an associate or joint venture that form part of the net investment (i.e., long-term interest) is to be calculated by (in order):

1. Application of the impairment requirements of IFRS 9 (or, for entities that have not yet applied IFRS 9, IAS 39) to that long-term interest alone.
2. Allocation of losses of the associate or joint venture to the investor’s net investment in the associate or joint venture (including the other long-term interest) in accordance with paragraph 38 of IAS 28.
3. Assessment of the net investment in the associate or joint venture for impairment in accordance with paragraphs 40-43 of IAS 28.

The amendment should also acknowledge that subsequent impairments under IFRS 9 (or IAS 39) can result in reversal of previous allocations of losses or impairments under IAS 28, such that long-term interests should not have negative carrying values nor cease to apply the impairment requirements in IFRS 9 (or IAS 39) as the carrying value approaches nil due to allocations of losses and impairments pursuant to IAS 28.

In addition, we recognise that this is necessarily a short-term measure pending the Board's comprehensive project on the equity method of accounting, but note that application (to some extent) of two different impairment models to the same asset is an imperfect solution. As such, we encourage the Board to progress with its comprehensive project and to include in its considerations the appropriate measurement of interests other than equity shares in associates and joint ventures.

Question 2 - Effective date of the proposed amendments to IAS 28 *Investments in Associates and Joint Ventures*

The Board is proposing an effective date of 1 January 2018 for the proposed amendments to IAS 28. The reasons for that proposal are explained in paragraphs BC7–BC9 of the Basis for Conclusions on the proposed amendments to IAS 28.

Do you agree with the effective date for those proposed amendments?

If not, why, and what alternative do you propose?

We agree for the reasons set out in the Basis for Conclusions on the exposure draft.

In addition, we recommend that in respect of the proposed amendments to IAS 23 and IAS 28 transitional reliefs be added to IFRS 1 *First-time Adoption of IFRSs* to allow first-time adopters the same transitional reliefs as existing IFRS reporters.