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Dear Jean-Paul,

IASB ED/2017/1 *Annual Improvements to IFRS Standards 2015-2017 Cycle*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on EFRAG's Draft Comment Letter (herein referred to as 'DCL') on the IASB's ED/2017/1 *Annual Improvements to IFRS Standards 2015-2017 Cycle* (herein referred to as the 'ED'). We appreciate the opportunity to respond to the DCL.

Like EFRAG in its DCL we:

- a) welcome the IASB's aim to clarify application of IFRSs by these minor amendments, and agree with this being done via the annual improvement process;
- b) generally agree with the proposed amendments in this ED;
- c) note in respect of the IAS 12 amendment that the "key" question, which is whether payments are distributions of profits (ie. dividends) or are other distributions to owners/shareholders, has not been answered;
- d) note in respect of the IAS 28 amendment that the ED's proposals only address the IFRS 9 scope question, but do not seem to reflect any of the other decisions made; hence, we suggest to add an illustrative example and to expand further on the wording of the amendment.

Please find our detailed comments on the questions raised in the ED in the appendix to this letter which we will also submit to the IASB. If you would like to discuss our comments further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow
President

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Appendix – Answers to the questions of the ED and related proposals

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? (Please answer individually for each proposed amendment.)

Proposed amendments to IAS 12

We agree with the the intention of the proposed amendment. We consider it appropriate in order to clarify the specific question of whether IAS 12.52B is restricted to the circumstances described in IAS 12.52A. In particular, it seems appropriate to insert the content of IAS 12.52B as new para. 58A, since this puts the requirement in a more general context without changing its substance.

Nevertheless, the amendment does not appear sufficient for addressing the underlying issue raised. In the context of assessing whether income tax consequences shall be recognised in profit or loss since they relate to dividends a more fundamental question arises that remains untouched: As we see it, the “key” question is whether payments are distributions of profits (ie. dividends) or are other distributions to owners/shareholders. This question needs to be answered before assessing the (appropriate) recognition of income tax consequences. Whilst we consider the proposed amendment as currently drafted provides for some clarification, even more clarification could be provided for if the IASB dealt with this “key” question. So far, the IASB's statement in the ED (para. BC5 on the IAS 12 amendment) about “exercising judgement” does not clarify anything and is not overly helpful in this regard.

With respect to transition, we do not support the IASB's view of requiring retrospective application. While we generally support the principle of retrospective application, in this context, we rather support prospective application, as the proposed amendment could give rise to considerable costs for little or no benefit. We therefore suggest the IASB reconsider its proposal.

Proposed amendments to IAS 23

We agree with the proposed amendment. We consider it appropriate and exhaustive to address the issue raised.

With respect to transition, we note that the IASB, in its October 2015 meeting, had already agreed a prospective application, whereas this is left open as per the wording of the ED (cf. para. 29D) – which is presumably a mere oversight. We support prospective application – for the reasons discussed at that IASB meeting. Otherwise, retrospective application of this proposed amendment could give rise to considerable costs (of gathering the information required) that is likely to exceed the potential benefits (from (additional) information usefulness).

Proposed amendments to IAS 28

Although the submitter primarily raised the question of whether IFRS 9 or IAS 28 or both apply to long-term interests, the IFRS IC was helpful in also looking into some related questions. As per the IFRIC May 2016 Update, the following clarifications were intended to be provided:

- a) *“An entity accounts for long-term interests applying IFRS 9, including the impairment requirements in IFRS 9”* – this would clarify that IFRS 9 fully applies to long-term interests;
- b) *“In allocating any losses ... the entity includes ... those long-term interests”* – this would clarify that the loss allocation per IAS 28.38 (a) applies to long-term interests, and (b) does not mean that the equity method is to be applied fully, which additionally confirms that the IFRS 9.2.1(a) scope exception does not cover long-term interests;
- c) *“The entity then assesses for impairment the net investment ... of which the long-term interests are part...”* – this would clarify that the impairment requirements of IAS 28.40 et seqq. apply to long-term interests; and lastly
- d) *“... the entity ignores those losses or that impairment when it accounts for long-term interests applying IFRS 9 in subsequent periods”* – this is aimed at clarifying how IFRS 9 requirements on impairment requirements interact with the IAS 28 requirements on loss allocation and impairment.

We fully agree with these four observations.

However, as currently drafted, the ED’s proposals do only address the IFRS 9 scope question (lit. (a) above), but do not seem to reflect any of the other decisions made. Therefore, we suggest that the amendments to IAS 28, or the related Basis for Conclusions, be expanded in order to effectively clarify what the IFRS IC intended to clarify by lit. (b)-(d) above as evidenced in the IFRIC May 2016 Update. We believe that this could be accomplished best by adding an example, such as the one that was used during the discussions by the Committee (see AP2, paras. 39-44 and App. B, of the IFRS IC May 2016 meeting). We note that, in September 2016, the IFRS IC itself suggested that an illustrative example be included in the proposals.

Notwithstanding the fact that such an example would considerably improve the clarifying nature of the amendments (in particular for the issue in lit. (b)), the last two decisions taken by the Committee would still not be answered:

- How should the IAS 28 impairment requirements be applied? In particular, should the impairment test be applied to the entire “net investment” or rather to its separate components (ie. the “interest/investment in the associate or joint venture” on the one hand, and the “long-term interest” on the other)? This corresponds with the issue in lit. (c).
- How precisely would entities ignore “those losses” arising from applying IAS 28.38 and “that impairment” arising from applying IAS 28.40 et seqq. when subsequently measuring long-



term interests, including any impairment, under IFRS 9? This corresponds with the issue in lit. (d).

Therefore, and in addition to including an illustrative example as proposed before, we suggest expanding further on the wording of the amendments to IAS 28, or including another illustrative example to clarify how IAS 28.38 as well as IAS 28.40 et seqq. are actually applied.

Question 2 – Effective date of the proposed amendments to IAS 28

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?

Effective Date of the proposed amendments to IAS 28

We have significant concerns with with the suggested effective date. Assuming that the amendments will be finalised and published, at best, in the fourth quarter in 2017, an effective date of 1 January 2018 would not allow for sufficient lead time to assess the relevance of these amendments and their implementation. Furthermore, jurisdictions with an endorsement process are likely to incur problems in completing any judicial acts necessary for entities domiciled in their jurisdictions to apply the amendments. Therefore, we urge the IASB to reconsider the mandatory effective date and suggest deferring it to 1 January 2019, with earlier application permitted.

Notwithstanding the fact that the question for the effective date has only been asked for the proposed amendment on IAS 28, we suggest aligning the mandatory effective dates for all three amendments as they will be finalised and published at the same point in time; hence, the afore mentioned argument of jurisdictions in need of bringing the amendments into national law is equally valid for the other two amendments.