

18 February 2013

International Accounting Standards Board
30 Cannon Street
London
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United Kingdom

Submitted via the "Comment on a Proposal" Page at www.ifrs.org

IASB ED/2012/2- Annual Improvements to IFRSs 2011 - 2013 Cycle

Dear Sirs

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the IASB's ED/2012/2- Annual Improvements to IFRSs 2011-2013 Cycle ("the ED"). AFME represents a broad range of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks and other financial institutions. AFME advocates stable, competitive and sustainable European financial markets, which support economic growth and benefit society.

We welcome the opportunity to comment on this ED. Overall, we support the proposed changes, but we do have a few comments, which are set out below.

Proposed amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

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?*

Answer: Yes

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?*

Answer: Yes

Rationale for our answers:

Our understanding is that the Basis for Conclusions of a standard is intended to be a record of how the conclusions were reached at the time that the standard was finalised.

If that understanding is correct, then in our view any proposal to amend the Basis for Conclusions at a later date would need to meet certain criteria. In particular, we consider that any such proposal should not introduce any new line of argument that was not contemplated at the time of the original discussion. Moreover, any such proposal should, at most, provide clarification of previously agreed conclusions.

We consider that the proposed amendments to IFRS1 do indeed meet these criteria.

Furthermore, the proposed additional paragraph BC11A is consistent with the way we had previously interpreted the Basis for Conclusions.

Proposed amendments to IFRS 3 *Business Combinations*

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?*

Answer: Yes; we would also suggest some additional guidance to confirm application of IFRS3 in the circumstances described below.

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?*

Answer: No. We consider that, for the reasons set out below, application should be prospective rather than retrospective.

Rationale for our answers:

Proposed paragraph 64H states: "An entity shall apply that amendment retrospectively [our emphasis] in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after 1 January 2014. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact."

When IFRS 3 was implemented, entities were required to apply it prospectively (IFRS 3, paragraph 64). Accordingly we question whether it is reasonable or appropriate for an amendment to IFRS 3 to be applied to arrangements entered into by an entity prior to first adoption of IFRS 3 by that entity, as would appear to be the case by requiring full retrospective application of this proposed amendment.

Proposed paragraph 2 states "This IFRS applies to a transaction or other event that meets the definition of a business combination. This IFRS does not apply to:

- (a) The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- (b) ..."

Our understanding is that this amendment is intended to clarify that IFRS 3 applies to the accounting treatment of the parties to a joint arrangement for their interests in the joint arrangement, and that the scope exemption for joint arrangements in IFRS 3 applies only to the accounting treatment within the joint arrangement itself. Hence the exemption would only affect those joint arrangements that involved a business combination: for example, if the joint arrangement involved the parties combining/merging two businesses together.

We think this is unclear within the ED and that inclusion of an example which meets the criteria for the exemption would provide further clarity in this regard.

Proposed amendment to IFRS 13 *Fair Value Measurement*

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?*

Answer: Yes.

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?*

Answer: No. We consider that, for the reasons set out below, application should be prospective rather than retrospective.

Rationale for our answers:

We understand that the proposed amendment to Paragraph 52 is merely a clarification of the exception in paragraph 48 (the portfolio exception), but would be grateful for confirmation that this is the case.

We note that proposed paragraph C4 states "An entity shall apply that amendment retrospectively [our emphasis] in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after 1 January 2014. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact."

IFRS 13 was intended to be applied prospectively for periods beginning on or after 1 January 2013 (IFRS 13, Appendix C, paragraph C1-C2).

Accordingly we question whether it is reasonable or appropriate for an amendment to IFRS 13 to be applied to arrangements entered into by an entity prior to first adoption of IFRS 13 by that entity as would appear to be the case by requiring full retrospective application of this proposed amendment.

Proposed amendment to IAS40 Investment Property

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?*

Answer: Yes.

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?*

Answer: Yes.

Rationale for our answers:

We agree that judgement is "also needed to determine whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination", and that this judgement should be based on the guidance in IFRS 3 rather than on paragraphs 7-15 of IAS 40.

I hope the above comments are helpful. We would of course, as always, be pleased to discuss any points which you may find unclear, or where you believe AFME members might be able to assist in other ways.

Yours faithfully,



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