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Finance for Europe

24 August 2012

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

By email to: commentletters@ifrs.org

IASB ED/2012/1 – *Annual Improvements to IFRSs 2010 – 2012 Cycle*

Dear Sirs

I am writing on behalf of AFME (the Association for Financial Markets in Europe) to respond to IASB ED/2012/1 – *Annual Improvements to IFRSs 2010 – 2012 Cycle* ("the ED"). AFME is, as you know, the leading European trade association for firms active in investment banking and securities trading and thus represents the shared interests of a broad range of participants in the wholesale financial markets. We are grateful for the opportunity to comment on this ED. Please note that we have restricted our comments to those amendments that most significantly affect our members.

IFRS 2 *Share-based payment*

Although our members are not aware of widespread divergence in the application of IFRS 2 in relation to the definition of vesting conditions, we support the Board's proposal to clarify the definition of "vesting conditions" by separately defining performance and service conditions.

Notwithstanding the above, we believe that paragraph BC7 in the Board's Basis for Conclusions on the proposed amendment requires further clarification in relation to the accounting treatment for a share-based payment award in respect of an employee whose employment has been terminated. Based on our understanding, in - for example - many voluntary and involuntary redundancy programmes, the vesting of share-based payment awards is frequently accelerated on termination of an employee's employment such that the employee is entitled to retain any previously unvested awards. We believe the accounting for such arrangements is addressed in paragraph 28 of IFRS 2, and that in such circumstances the related compensation expense should not be reversed.

Based on the above, we believe the statement in paragraph BC7 that "… if the employee fails to complete a specified service period, the employee fails to

satisfy a service condition, *regardless of what the reason for that failure is* …" (emphasis added) should be amended to ensure that it applies only in circumstances in which previously granted awards that remain unvested are forfeited by the employee on termination of their employment. Circumstances in which vesting conditions are accelerated on termination of employment should be excluded from these requirements to ensure that the compensation expense is not reversed for any share-based payment awards that the employee retains on termination of their employment.

We agree with the proposed effective date for this amendment and also support the Board's proposal to permit earlier application.

IFRS 3 *Business Combinations and IFRS 9 Financial Instruments*

We support the Board's proposed amendment to IFRS 3 and the consequential amendment to IFRS 9 to clarify certain aspects of accounting for contingent consideration.

As IFRS 3 is essentially a converged standard, which was developed jointly with the FASB, we believe the IASB should work with the FASB with a view to getting these amendments also incorporated in Accounting Standards Codification ("ASC") 805, the equivalent FASB standard on business combinations.

We support the proposed effective date and transition guidance for this amendment, which requires prospective application to business combinations for which the acquisition date is on or after 1 January 2015. This aligns with the mandatory effective date of IFRS 9 and will therefore avoid the need to make equivalent amendments to IAS 39. On a similar basis, we also support the Board's proposal to permit earlier application of the amendment provided that entities that apply the amendment at an earlier date also apply IFRS 9 at the same time.

IFRS 8 *Operating Segments*

We support the Board's proposal to require entities to disclose the judgements made by management in determining that operating segments can be aggregated for the purposes of establishing the entity's reportable segments.

We also support the Board's proposal to clarify that a reconciliation of the total of the reportable segment's assets to the entity's assets should be disclosed if that amount is regularly provided to the chief operating decision-maker in accordance with paragraph 23 of IFRS 8, thereby making the disclosure requirement for assets in paragraph 28(c) consistent with that for liabilities in paragraph 28(d).

We agree with the proposed effective date for this amendment and support the Board's proposal to permit earlier application.

IFRS 13 *Fair Value Measurement*

We believe that measuring short term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial, remains an appropriate measurement basis for such instruments. Accordingly, we support the Board's proposed amendment to the Basis for Conclusions to IFRS 13 to clarify that the amendments made to IFRS 9 and IAS 39 by IFRS 13 were not intended to remove an entity's ability to adopt this approach following implementation of IFRS 13.

IAS 1 *Presentation of Financial Statements*

We support the Board's proposed amendment to IAS 1 to clarify that for a liability that is due within twelve months to be classified as non-current the entity must expect, and have the discretion, to refinance or roll over the liability for at least twelve months after the reporting period with the same lender on the same or similar terms.

We agree with the proposed effective date for this amendment and support the Board's proposal not to require an entity to apply the amendment to comparative information. We also support the Board's proposal to permit earlier application.

IAS 12 *Income Taxes*

We support the Board's proposal to add paragraph 27A to IAS 12 to clarify that an entity should consider whether tax law restricts the source of taxable profit against which it may make deductions on reversal of a deductible temporary difference and believe that this reflects existing practice for our members.

We also support the Board's proposal to add paragraph 29(a)(i) and the associated example to IAS 12 to clarify that the taxable profit against which an entity assesses a deferred tax asset for recognition is the amount before any reversal of deductible temporary differences. We agree with the Board's assessment in the Basis for Conclusions to the amendment that the deductible temporary difference is utilised by deduction against the amount of taxable profit determined before deducting the amounts resulting from the reversal of the deductible temporary difference; otherwise the deduction will be double-counted. We believe the Board's proposed changes, including the addition of an example, will provide clarification of this and will also converge IFRS with the requirements in US GAAP.

Further, we support the Board's proposal to add paragraph 30A, and the associated example, to IAS 12 to clarify that in order for an action to qualify as a tax planning opportunity it needs to create or increase taxable profit.

We agree with the proposed effective date for this amendment and support the Board's proposal to permit earlier application.

IAS 24 *Related Party Disclosures*

We support the Board's proposal to extend the definition of a related party to include management entities and to extend the disclosure requirements of paragraph 18 of IAS 24 to require separate disclosure of the amounts recognised as an expense by the reporting entity for the provision of key management personnel services provided by a separate management entity.

However, we do not agree with the Board's proposal to exempt a reporting entity from the disclosures in paragraph 17 of IAS 24 for compensation of key management personnel paid through another entity, unless the management entity also prepares financial statements under IFRS that are publicly available or it is impracticable for the reporting entity to access the detailed information required for such disclosure.

We understand that the primary purpose for the proposed disclosure exemption was to prevent the reporting entity from duplicating information that is disclosed in the management entity's financial statements. However, this would only apply if the management entity were required to prepare financial statements under IFRS (or equivalent reporting standards) which we believe, in many instances, will not be the case. Furthermore, we also believe that the "blanket" exemption proposed by the Board would create an inconsistency in the disclosure requirements for key management personnel employed directly by an entity and individuals that provide identical services, but are paid via a separate management entity.

Notwithstanding the above, we accept that where the management entity does not prepare financial statements under IFRS, there may be circumstances in which it is impracticable for the reporting entity to access the detailed information required by paragraph 17 of IAS 24 when compensation is paid to a separate management entity as fees, particularly where that management entity has multiple staff providing services to the reporting entity.

Thus, in our view, rather than excluding compensation of key management personnel paid through another entity from the disclosure requirements in paragraph 17 of IAS 24 in their entirety, we believe the Board should adopt a "comply or explain" approach whereby reporting entities are required to provide the disclosures required in paragraph 17 of IAS 24 for payments made to key management personnel paid through another entity unless that

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information is presented in publicly available financial statements of the management entity, or it is impracticable to access the detailed information required for the disclosure, in which case this should be stated and explained in the notes to the financial statements.

We agree with the proposed effective date for this amendment and support the Board's proposal to permit earlier application.

IAS 36 *Impairment of Assets*

We believe the disclosures required by IAS 36 when a material impairment has been recognised or reversed during the period should be the same regardless of whether the amount of any such impairment charge or reversal is determined using fair value less costs of disposal or a value in use approach. We therefore support the Board's proposal to amend IAS 36 to harmonise the disclosure requirements for these two approaches.

We agree with the proposed effective date for this amendment and the Board's proposal to apply the amendment prospectively as of the beginning of the annual period in which it is initially applied. We also support the Board's proposal to permit earlier application of the amendment.

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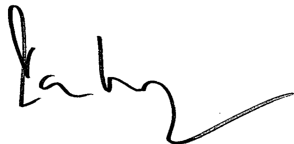
I hope the above comments are helpful. We would of course, as always, be pleased to discuss any points which you may find unclear, or where you believe AFME members might be able to assist in other ways.

Yours faithfully



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