Accounting Standards Board AcSB
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Submitted electronically via www.ifrs.org

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

Dear Sirs,

Re: Annual Improvements to IFRSs 2011 – 2013 Cycle (ED/2012/2)

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the International Accounting Standards Board's (IASB) Exposure Draft, "Annual Improvements to IFRSs 2011 – 2013 Cycle," issued in November 2012.

The AcSB is Canada's national accounting standard setting body, which has adopted a strategy of importing IFRSs into Canada for publicly accountable enterprises. The AcSB consists of members from a variety of backgrounds, including preparers, advisors, academics and financial statement users. Additional information about the AcSB can be found at www.frascanada.ca.

The views expressed in this letter take into account comments from individual members of the AcSB and its staff. However, they do not necessarily represent a common view of the members of the AcSB, its committees or staff. Formal positions of the AcSB are developed only through due process.

We agree with the amendments proposed to IFRS 3, IFRS 13 and IAS 40 in the Exposure Draft but not the amendment proposed to IFRS 1. We also support the transitional provisions and effective date proposed in the Exposure Draft, although we think that an entity should be able to apply the amendment to IAS 40 retrospectively. Our rationales for not amending the Basis for Conclusions to IFRS 1 and for applying the amendment to IAS 40 respectively are explained below. We also have some overarching concerns about changes being made to the Basis for Conclusions material without modification to the standard and the need for an effects analysis that we explain first.

Changes to Basis for Conclusions material

We are concerned with a recent preference to make changes to Basis for Conclusions material through the annual improvements process and not to revise related authoritative material. We disagree with amending Basis for Conclusions text as it does not meet the annual improvement criteria since such an amendment does not clarify or correct the standard. According to the proposed Due Process Handbook, a Basis for Conclusions explains the rationale the IASB had for the decisions it reached in developing or changing an IFRS at that time. This rationale should not be changed unless the standard is being modified. A Basis for Conclusions also includes the IASB's responses to comments received when proposals were exposed. When the standard is clear, we do not think that the IASB should use its resources to amend non-authoritative material. Conversely, if the standard is not clear, the standard should be revised rather than the Basis for Conclusions. The Basis for Conclusions should then explain why a change was made.

Providing guidance in Basis for Conclusions material rather than the standards has implications in practice, as such guidance can be disregarded while an entity continues to assert full compliance with 'IFRSs as issued by the IASB'. This is a significant issue for jurisdictions that have adopted only the unaccompanied IFRSs, such as Canada. Guidance included in Basis for Conclusions is not included in national standards and is less likely to be applied by preparers in these jurisdictions. Thus, providing guidance in a Basis for Conclusions will not address implementation concerns and divergence in practice will continue.

Effects Analysis

Based on the proposed Due Process Handbook requirement, we were expecting to see an effects analysis accompanying the exposure draft. We think it is important that the IASB demonstrate that the benefits of the proposals exceed the costs at each stage of the standard setting process. As the annual improvement process deals with relatively minor, although necessary, clarifications or corrections to IFRSs, we were not expecting a detailed effects analysis. However, providing guidance on an issue such as the effects of not requiring retrospective application of the amendment to IAS 40 would be helpful (see our further comment below).

IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Meaning of effective IFRSs

We recommend not amending the Basis for Conclusions as the proposed amendment does not meet the criteria of an Annual Improvement because it does not clarify the standard and could lead to further confusion (see our further comment above). We think that the guidance in paragraphs 7-9 of IFRS 1 is clear and provides sufficient direction.

As well, the proposed new paragraph BC11A is incomplete as it does not explain what entities that choose to adopt a newly issued standard early in the year of first-time adoption of IFRS should do or not do. Paragraph 9 of IFRS 1 prohibits a first-time adopter from applying the transition requirements in a standard except as specified in Appendices B–E. Thus, IFRS 1 might require retrospective application when a new standard would otherwise require prospective application in the year of adoption. For example, IFRS 13 requires prospective application as the use of hindsight would be required if an entity applied the standard retrospectively. Therefore, we think by modifying paragraph BC11 and adding paragraph BC11A, more confusion could occur.

If the IASB thinks that additional guidance is necessary, the IFRS 13 example mentioned above should be added to the standard to demonstrate how a first-time adopter entity might be required to adopt a new standard early on a retrospective basis when the new standard would otherwise require prospective application.

IAS 40 *Investment Property* – Clarifying the interrelationship of IFRS 3 and IAS 40

We have some concern with the proposed transition provision for the amendment to IAS 40 *Investment Property*. We appreciate that the IASB does not want entities to use hindsight to determine acquisition date fair values of the identifiable assets acquired and of the liabilities assumed as part of a business combination transaction. However, we think that retrospective application would result in more relevant information that would benefit users of financial statements. Fair value information is readily available when most investment properties are purchased, thus, the use of hindsight is not a significant concern in those situations. Nevertheless, we recognize that an entity may now need to account for an asset purchase as a business. In these instances, fair value information might not be available for assets and liabilities other than the investment property itself, such as an intangible asset. Therefore, we think if entities have the fair value information available, an entity should be permitted to apply the requirements retrospectively.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact Peter Martin, Director, Accounting Standards at +1 416 204-3276 (email peter.martin@cica.ca), Rebecca Villmann, Principal, Accounting Standards at +1 (416) 204-3464 (email rebecca.villmann@cica.ca) or Katharine Christopoulos, Principal, Accounting Standards at +1 416 204-3270 (email katharine.christopoulos@cica.ca).

Yours truly,

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