Accounting Standards Board
AcSB
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Conseil des normes comptables

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April 12, 2017

Submitted electronically via www.ifrs.org

International Accounting Standards Board
30 Cannon Street, 1st Floor
London EC4M 6XH
United Kingdom

Dear Sirs:

Re: Annual Improvements to IFRS Standards 2015 – 2017 Cycle (ED/2017/1)

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 IFRS Standards 2015 – 2017 Cycle" issued in January 2017.

Our views

Overall, we agree that an amendment to IAS 28 *Investments in Associates and Joint Ventures* regarding long-term interests is necessary, but we think the amendments as currently drafted will not be effective at clarifying the interaction between IAS 28 and IFRS 9 *Financial Instruments* for long-term interests. Furthermore, we support the proposed amendments to IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs,* however, we have identified a number of concerns with the drafting of these amendments.

In regard to the proposed effective date for the amendment to IAS 28, this will likely pose a challenge to stakeholders in Canada. A regulatory requirement will make IFRS 9 applicable by large Canadian banks for their fiscal years commencing November 1, 2017. Accordingly, our stakeholders need the amendments incorporated into Canadian GAAP before November 1, 2017. This means we need time to complete our endorsement process before this date. We recommend the IASB issues the final 2015-2017 Annual Improvements at the same time as the final amendments to IFRS 9 regarding Prepayment Features with Negative Compensation, as Canadian stakeholders will face the same timing issue for both amendments.

We continue to strongly support the IASB in its efforts to identify and address standards implementation issues. However, when faced with an impending effective date (as is the case for the current amendments being proposed to IFRS 9), we encourage the IASB to be mindful regarding the nature of the amendments and the effect they will have on stakeholders. While clarification amendments are helpful, amendments that result in changes to practice increase the burden placed on stakeholders, who must deal with these moving pieces in the midst of challenging implementation projects. Therefore, as always, we encourage the IASB to consider the full effect an amendment will have on all stakeholders, including whether it will change practice, before it is proposed.

Our responses to your questions

The Appendix to this letter, which responds to the questions posed in the Exposure Draft, expands on our points above.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Rebecca Villmann, Director, Accounting Standards (+1 416 204-3464 or email rvillmann@cpacanada.ca) or Katherine Knowlton, Principal, Accounting Standards (+1 416 204-2972 or email kknowlton@cpacanada.ca).

Yours truly,

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About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.

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?

1. Our comments regarding the amendments proposed by this Exposure Draft are set out below.

Amendments to IAS 28

2. We agree that there is an issue in IAS 28 regarding the interaction between IAS 28 and IFRS 9 for long-term interests, but we think the amendments as proposed will not be effective at addressing this issue.

3. The amendments do not clearly articulate the order in which the guidance in IAS 28 and IFRS 9 should be applied to long-term interest and the interaction between the guidance in each standard. Additionally, it is unclear how to avoid double counting an impairment under the Exposure Draft proposal. For example, when considering whether the long-term interest is impaired under IFRS 9, the guidance does not specify whether an impairment loss should be measured against the gross or net (i.e., net of any share of investee losses) balance.

4. Accordingly, we recommend providing further guidance to ensure it is clear how to apply the guidance in both IAS 28 and IFRS 9 to long-term interests. To do so, it may be helpful to provide an illustrative example that works through the application of IAS 28 and IFRS 9 on a long-term interest and provides clarity on the order in which each aspect of the guidance should be applied.

5. Furthermore, we encourage the IASB to make its project on the equity method a priority. Our consideration of the proposed amendments to IAS 28 in this Exposure Draft highlighted a number of concerns with the application of the equity method, similar to those raised in the IASB's and IFRS Interpretations Committee's discussions of this amendment. We think this provides evidence to suggest the IASB's equity method project should be a priority. This is consistent with our response to the IASB's 2015 Agenda Consultation, which had placed a rating of high on this project.

6. In addition to the more general concern noted above, we have a few additional concerns on the proposed amendments to IAS 28.

7. We think the amendments in paragraph 14A do not make it clear that the impairment requirements of IFRS 9 must be applied to long-term interests. We think the proposed wording in paragraph 14A is vague and there is a risk that stakeholders interpret this guidance to mean only the recognition and measurement requirements of IFRS 9 are applied to long-term interests. The

fact that the wording around applying IFRS 9 has been removed from paragraph 41 under the heading "Impairment losses" contributes to this issue. While the Basis for Conclusions makes it explicit that the impairment requirements of IFRS 9 must also be applied to long-term interests, we recommend amending the authoritative guidance in IAS 28 directly to make it clear that all aspects of IFRS 9 must be applied to long-term interests.

8. Furthermore, the transitional guidance in paragraph 45F may be confusing for stakeholders who may not know to refer to the transitional guidance in IFRS 9. Accordingly, we recommend clarifying this paragraph to make this point explicit. For example, paragraph 45F is not relevant for entities who have early adopted IFRS 9, however as currently drafted this would not be clear.

Amendments to IAS 12

9. We agree with the IASB's proposed amendments to IAS 12 but have noted a few concerns regarding the drafting of these amendments.

10. As indicated by paragraph BC5 in the Basis for Conclusions, the proposed amendments require stakeholders to look to the definition of dividends in IFRS 9 to determine when a distribution is a dividend for purposes of applying the guidance in paragraph 58A. This definition is not included in IAS 39, resulting in entities who have not yet applied IFRS 9 needing to look to IFRS 9 for the definition of a dividend. We understand that this issue will only affect a small group of stakeholders because IFRS 9 will be applied by most entities before these IAS 12 amendments are effective.

11. Furthermore, it is not clear based on the amendments proposed to the main body of IAS 12 that stakeholders need to look to IFRS 9 for the definition of a dividend because this detail is only included in the Basis for Conclusions. Therefore, there is a risk that stakeholders will not understand the IASB's intention to link the term dividends in IAS 12 to the definition of dividends in IFRS 9.

12. We recommend defining dividends directly in IAS 12 to clearly explain when the guidance in paragraph 58A applies. This additional guidance would ensure stakeholders understand the IASB's intention that dividends include only distributions of profit, and not other distributions (such as a return of capital), without reading the non-authoritative Basis for Conclusions. This would also address our first concern as stakeholders would not be required to look to IFRS 9 for the definition of a dividend.

Amendments to IAS 23

13. We agree with the IASB's proposed amendments to IAS 23 but have noted a few concerns regarding the drafting of these amendments.

14. With regard to the amended wording in paragraph 14, we note that the current proposed wording only excludes borrowings from the calculation, and not the related borrowing costs. We think this wording is therefore incomplete because it only addresses the denominator in the calculation of the capitalization rate and not the numerator. Accordingly, we recommend the wording in paragraph 14 be amended as follows:

    "An entity shall exclude from this calculation borrowings, and related borrowing costs, made specifically for the purpose…"

15. We are also concerned that the proposed transitional provisions in paragraph 28A do not accommodate entities who choose to early adopt this amendment because this paragraph includes a reference to a specific date. Therefore, we recommend that paragraph 28A should state that an entity should apply the amendments in paragraph 14 to borrowing costs incurred from the beginning of the first annual period "in which the entity applies the amendment", instead of referencing a specific date.

16. Beyond the scope of this annual improvement, we think that further improvements are required to IAS 23 regarding the definition of borrowings. Specifically, we note the current guidance in IAS 23 is not clear on whether certain borrowings should be included in the IAS 23 calculation of capitalized borrowing costs. For example, we note the standard does not address how financial sector entities should apply the guidance to sector specific liabilities such as customer accounts, trading positions and securities repurchase agreements.

Early application of amendments

17. We think the transition guidance for IAS 12, IAS 23 and IAS 28 should state that when an entity applies the amendments early, it applies the amendments from the beginning of an annual reporting period. We think that this clarification, which applies to this Exposure Draft as well as other standards and amendments issued by the IASB, is necessary to be consistent with the proposed transition guidance that requires application from the beginning of an annual reporting period.

Question 2—Effective date for 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?

18. While we agree with the IASB's rationale for proposing an effective date of January 1, 2018, such an effective date may prove to be difficult in Canada as our due process requires us to undertaken a separate endorsement process. This process generally takes a few months following the issuance of final amendments by the IASB and involves multiple steps, including a separate balloting process, before IFRS standards are incorporated into Canadian GAAP.

19. Further, we note that in Canada the Office of the Superintendent of Financial Institutions has introduced regulation requiring large Canadian banks to apply IFRS 9 for their fiscal years commencing November 1, 2017. Accordingly, such entities would require the amendments to be endorsed and incorporated into Canadian GAAP by this date in order for them to be applied at transition. This would enable Canadian banks to apply the transition relief in IFRS 9 in accounting for the clarifications to IAS 28 regarding long-term interests.

20. Therefore, we need sufficient time to complete our endorsement process in order to incorporate the amendments into Canadian GAAP by November 1, 2017 when they are needed by our stakeholders. We note that Canadian stakeholders will face the same issue in regards to the proposed amendments to IFRS 9 on Prepayment Features with Negative Compensation. Accordingly, we recommend that the IASB issues the final 2015-2017 Annual Improvements at the same time as the other IFRS 9 amendments, so that stakeholders are not faced with two different rounds of changes related to IFRS 9 so close to the effective date.

Impending adoption of IFRS 9

21. We are also concerned more generally with the extent of amendments currently being considered by the IASB related to IFRS 9 so close to the effective date. Canadian stakeholders are very much in the midst of challenging IFRS 9 implementation projects. We understand the IASB is proposing the various amendments in order to simplify and clarify aspects of IFRS 9 to support stakeholders with the implementation of this new standard. However, amendments that cause changes to practice may increase the burden on stakeholders, who are required to deal with these moving pieces as part of their implementation projects. Accordingly, we encourage the IASB to remain mindful of this fact and ensure the full effect on stakeholders is considered prior to making amendments to IFRS 9 before the effective date.