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Australian Accounting Standards Board

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Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Hans

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

The Australian Accounting Standards Board (AASB) is pleased to provide comments on ED/2012/2 *Annual Improvements to IFRSs 2010-2012 Cycle*. In formulating its views, the AASB sought and considered the views of Australian constituents. The comment letter received is published on the AASB's website.

Overall the AASB supports the proposed amendments, with the exception of the proposed amendment to IAS 40 *Investment Property* because it would not adequately address the fundamental need to improve the definition of a business in IFRS 3 *Business Combinations*. More details about the AASB's views are provided in the attachment.

If you have any queries regarding any matters in this submission, please contact Julie Smith (jsmith@aasb.gov.au).

Yours sincerely,

K.M. Stevenson

Kevin M. Stevenson
Chairman and CEO

AASB Specific Comments on the IASB Exposure Draft ED/2012/2 *Annual Improvements to IFRSs 2011-2013 Cycle*

The AASB's views on the questions in the Exposure Draft are as follows:

Question 1 - do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

The AASB agrees with the proposed amendments to each of the following Standards:

- IFRS 1 *First-time adoption of International Financial Reporting Standards – Meaning of effective IFRSs*
- IFRS 3 *Business Combinations* – Scope exceptions for joint ventures
- IFRS 13 *Fair Value Measurement* – Scope of paragraph 52 (portfolio exception)

However, in relation to IAS 40 *Investment Property* – Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property the AASB has the following comments.

The AASB agrees with the IASB's concern that acquisitions of investment properties are dealt with inconsistently in practice. However, the AASB is of the view that an amendment to IAS 40 would not adequately address the fundamental need to improve the definition of a business in IFRS 3.

The IFRS 3 definition of a business is difficult to apply generally (not just in the context of investment property). This is evident from the fact that the International Financial Reporting Standards Interpretations Committee (IFRSIC) has recently been asked to deal with other issues that concern the definition of a business. One such issue concerns the accounting for reverse acquisitions of an entity that do not constitute a business. This and the issue at hand arise out of uncertainty about the definition of a business in IFRS 3, but the IASB/IFRSIC appear to be approaching the issues in different ways. The AASB thinks the IASB should consider the definition of a business and supporting guidance in IFRS 3. This could be done as part of the post-implementation review of IFRS 3.

If the proposal to amend IAS 40 proceeds, the AASB is concerned that the phrase "this judgment is not based on paragraphs 7-15 of IAS 40 but is instead based on the guidance in IFRS 3", ignores the fact that the distinguishing characteristics of an investment property could be relevant in applying IFRS 3's definition of a business.

Question 2 - do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

The AASB agrees with the proposed transition provisions and effective dates for the proposed amendments to IFRS 1, IFRS 3 and IFRS 13.

In relation to IAS 40 some AASB members query the proposal that the amendment to IAS 40 (if it proceeds – see comments above) be applied prospectively. They regard the proposed new text as clarifying what was previously required and therefore if it has not been previously complied with, an error has been made and should be corrected retrospectively in accordance with IAS 8 *Accounting Policies: Changes in Accounting Estimates and Errors.*

As noted in the response to question 1 above this issue has some commonality to the issue of accounting for reverse acquisitions of an entity that does not constitute a business dealt recently by the IFRS IC. The AASB would question why different approaches to transition are being taken to these issues.