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Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom
Email: commentletters@ifrs.org

11 April 2017

Re: Exposure Draft ED/2017/1 – Annual Improvements to IFRS Standards 2015–2017 Cycle

Dear Mr Hoogervorst

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IASB's Exposure Draft ED/2017/1 *Annual Improvements to IFRS Standards 2015–2017 Cycle* ('the ED').

We welcome the IASB's continuing efforts to deal with non-urgent amendments to IFRS in an efficient and effective manner via the Annual Improvements process, and we broadly support the proposals in the ED as they provide greater clarity and will reduce current diversity in practice.

Our comments and detailed responses to the questions set out in the Invitation to Comment section of the ED are detailed hereafter.

We would be pleased to respond to any questions the Board or its staff may have about any of our comments.

Please do not hesitate to contact me or Joelle Moughanni at +44 207 601 1080.

Sincerely,

Robert Dohrer
Global Leader - Quality and Risk
RSM International

<u>Question 1—Proposed amendments</u>

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?

<u>Proposed amendments to IAS 12 *Income Taxes*</u>: Income tax consequences of payments on financial instruments classified as equity

We agree with the proposed amendment to clarify that all income tax consequences of dividend payments should be accounted for in the same way, as well as with its retrospective application.

However, we believe that in order to significantly reduce current diversity in practice, guidance should be provided on how to determine whether the payments are distributions of profits, in particular for payments on financial instruments classified as equity. As we agree with the Board that distinguishing distributions of profits from other distributions goes beyond the scope of an amendment to IAS 12, we recommend that such a separate project is undertaken in the near future (alternatively, this could be dealt with in the *Conceptual Framework* or *Financial Instruments with Characteristics of Equity* projects).

<u>Proposed amendments to IAS 23 *Borrowing Costs*</u>: Borrowing costs eligible for capitalisation

We agree with the proposed amendment to clarify that once a qualifying asset is ready for its intended use or sale, any outstanding borrowing made specifically to obtain that qualifying asset should be treated as part of the funds that the entity has borrowed generally.

Although we are generally in favour of retrospective application of new and amended requirements in accordance with IAS 8 (in the name of enhanced comparability), we agree in the present case with the Board's rationale (as exposed in paragraph BC3 of the ED) for a prospective application of the amendment.

<u>Proposed amendments to IAS 28 *Investments in Associates and Joint Ventures*</u>: Long-term interests in an associate or joint venture

We agree with the proposed amendment to clarify that IFRS 9 *Financial Instruments* (including its impairment requirements) should apply to long-term interests in an associate or joint venture that, in substance, form part of the net investment but to which the equity method is not applied ('long-term interests').

However, this means applying two different impairment requirements to such long-term interests – first IFRS 9 to the long-term interest alone, then IAS 28 / IAS 36 to the net investment that includes the long-term interest – thus possibly creating confusion in practice. In our view, some clarification or guidance (e.g. in the form of an illustrative example) is needed on the sequence of the steps that entities need to take in relation to the overlap between the requirements of IFRS 9 and IAS 28 for impairment of long-term interests.

<u>Question 2—Effective date of the proposed amendments to IAS 28 *Investments in Associates and Joint Ventures*</u>

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?

We agree with aligning the effective date of the proposed amendments to IAS 28 with the effective date of IFRS 9, as we do not anticipate significant practicality issues despite the short period between the expected date of issuing the amendments and 1 January 2018.

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