Grant Thornton

Mr Kevin Stevenson
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By Email: standard@aasb.gov.au

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Dear Kevin

Exposure Draft Annual Improvements to IFRSs 2011-2013 Cycle (ED 229 – IASB ED/2012/2)

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on ED 229 which is a re-badged copy of the International Accounting Standards Board's (the Board) Exposure Draft ED/2012/2 Annual Improvements to IFRSs 2011-2013 Cycle (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations (NFPs). This submission has benefited with input from our clients, Grant Thornton International which will be finalising a global submission to the IASB by its due date of 18 February 2013, and discussions with key constituents.

We also consider that these are all appropriate matters to be addressed in the annual improvements process. We also agree with the first three of the proposed amendments.

We do not support the proposed clarification of the interrelationship of IFRS 3 and IAS 40. We do however have detailed comments on several of the proposals, set out in the Appendix to this letter.

If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED

Keith Reilly
National Head of Professional Standards

A. IASB Comments on specific proposals

Issue 1: IFRS 1 *First-time adoption of International Financial Reporting Standards* - Meaning of effective IFRSs

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?
We agree.

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 ED does not specify any transition provisions or effective date. We agree that no specific provisions or date are required given that the proposal would amend only the Basis for Conclusions to IFRS 1.

Issue 2: IFRS 3 *Business Combinations* - Scope exceptions for joint ventures

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?
We agree.

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?
We agree.

Issue 3: IFRS 13 *Fair Value Measurement* - Scope of paragraph 52 (portfolio exception)

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?
We agree.

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?
We agree.

Issue 4: IAS 40 *Investment Property* - Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

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?
We acknowledge that acquisitions of investment property are dealt with inconsistently at present. However, we note that IFRS 3's definition of a business is also difficult to apply for other acquisitions of 'assets' that are capable of generating revenue on a largely standalone basis. We prefer that the Board considers the definition of a business and supporting guidance in IFRS 3 more generally instead of amending IAS 40 in the manner proposed.

We also agree that judgment is required to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3. However, we do not support the statement 'this judgment is not based on paragraphs 7–15 of IAS 40 but is instead based on the guidance in IFRS 3'. An investment property is a very specific category of asset and we believe that its distinguishing characteristics can be relevant in applying IFRS 3's definition of a business.

More specifically, we note that earning revenues (in the form of rentals) is implicit in the definition of investment property (based on paragraph 5 of IAS 40). Some related services, of the type referred to in paragraph 11 of IAS 40, are ancillary to rental generation. Accordingly, we believe that routine characteristics of an investment property such as in-place leases, associated rental revenue generation and ancillary services should be given a lower weighting when determining whether an acquisition is a business combination or an asset purchase.

We also note that the proposal would result in even a simple purchase of a single property with in-place tenants and associated services being viewed as a business combination within the scope of IFRS 3. We think this would add cost and complexity and question whether it would result in better information for users.

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?
We agree.

B. AASB invitation to comment questions

Question 1

Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
(a) not-for-profit entities; and
(b) public sector entities – including any implications for GAAP/GFS harmonisation.
We are not aware of any regulatory issues.

Question 2

Whether, overall, the proposals would result in financial statements that would be useful to users.
We agree that the proposals would result in financial statements that would be useful to users.

Question 3

Whether the proposals are in the best interests of the Australian economy.
We agree that the proposals are in the best interests of the Australian economy.

Question 4

Unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.
We have no further comment.