COMITÊ DE PRONUNCIAMENTOS CONTÁBEIS

SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
http://www.cpc.org.br

December, 11, 2023

commentletters@ifrs.org

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London

Reference: Exposure Draft: Annual Improvements—Volume 11

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond to the Exposure Draft: Annual Improvements—Volume 11.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,

Rogério Mota

Rogério Lopes Mota
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

[1]The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), B3 (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

COMITÊ DE PRONUNCIAMENTOS CONTÁBEIS

SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
http://www.cpc.org.br

We summarised our comments in subtopics below, consistent with the sequence of information provided by the Exposure Draft:

1. IFRS 1 First-time Adoption of International Financial Reporting Standards—hedge accounting by a first-time adopter

> ***Question:*** *Do you agree with the IASB's proposals to amend the IFRS Accounting Standards and accompanying guidance in the manner described in this Exposure Draft?*
>
> *If not, why not? If you disagree with these proposals, please explain what you would suggest instead and why.*

Our response:

While we agree with the utilisation of the term "qualifying criteria" as a replacement to "conditions", a direct reference to paragraph 6.4.1(b) of IFRS 9 may improperly imply that hedge accounting documented under prior accounting policies by the reporting entity would not be able to be treated as continuing hedge relationships.

Consistent with the transition from IAS 39 to IFRS 9 as it relates to hedge accounting, existing hedge relationships documented under IAS 39 guidelines are updated to meet the requirements of IFRS 9 on the date of initial application. Such update includes, among others, topics such as (i) a reconsideration of the documented risk management strategy and objective; (ii) approach and rationale for concluding the eligibility criteria are met, including an explanation of the economic relationship, the effect of credit risk, and the hedge ratio; (iii) identification of all major sources of ineffectiveness; (iv) justification for designation of any risk components; (v) removal of the retrospective effectiveness assessment; and (iv) the approach to costs of hedging (whenever applicable).

Therefore, it can be understood that at most times, prior to the abovementioned adjustments to the hedge documentation upon transition, the criteria set forth on paragraph 6.4.1(b) will not be met. To clarify the intended application of those concepts we believe paragraph B6 of IFRS 1 could be reworded as below:

"If, before the date of transition to IFRSs, an entity had designated a transaction as a hedge but the hedge does not meet the qualifying criteria ~~conditions~~ for hedge accounting in paragraph 6.4.1(a~~b~~)–(c) of IFRS 9 (including the required amendments to hedge documentation required upon transition), the entity shall apply paragraphs 6.5.6 and 6.5.7 of IFRS 9 to discontinue hedge accounting. Transactions entered into before the date of transition to IFRSs shall not be retrospectively designated as hedges."

2. IFRS 7 Financial Instruments: Disclosures—gain or loss on derecognition

> ***Question:*** *Do you agree with the IASB's proposals to amend the IFRS Accounting Standards and accompanying guidance in the manner described in this Exposure Draft?*
>
> *If not, why not? If you disagree with these proposals, please explain what you would suggest instead and why.*

Our response:

We agree with the proposed amendments and have no comments.

3. Guidance on implementing IFRS 7 (introduction and credit risk disclosures)

> ***Question:*** *Do you agree with the IASB's proposals to amend the IFRS Accounting Standards and accompanying guidance in the manner described in this Exposure Draft?*
>
> *If not, why not? If you disagree with these proposals, please explain what you would suggest instead and why.*

Our response:

We agree with the proposed amendments and have no comments.

4. Guidance on implementing IFRS 7 (disclosure of deferred difference between fair value and transaction price)

> ***Question:*** *Do you agree with the IASB's proposals to amend the IFRS Accounting Standards and accompanying guidance in the manner described in this Exposure Draft?*
>
> *If not, why not? If you disagree with these proposals, please explain what you would suggest instead and why.*

Our response:

While it has been clarified that the Implementation Guidance do not illustrate all the requirements in IFRS 7, those are expected to support and assist the preparer when making interpretations of certain IFRS requirements (in this case a direct reference to paragraph 28) and when making judgments of the information that would be required to be provided to the users of the financial statements to comply with the applicable reporting requirements. In that regard the inclusion of an example is typically expected by the preparers to provide a full and comprehensive response to those requirements rather than a partial view.

We believe that adjusting the wording to clarify the requirements that would be additional to those provided by the example would provide the preparers with a better support when making their judgments in light of the needs of the users of the financial statements. The wording below could be an option to achieve that:

IG14. (…) Paragraph 28 requires disclosures in these circumstances. An entity might disclose the following to comply with ~~some of~~ the requirements in subparagraph 28(a) and 28 (b)~~:~~. In addition to the below, an entity must also disclose information that enable users to understand why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

5. IFRS 9 Financial Instruments (derecognition of lease liabilities)

Question: *Do you agree with the IASB's proposals to amend the IFRS Accounting Standards and accompanying guidance in the manner described in this Exposure Draft?*

If not, why not? If you disagree with these proposals, please explain what you would suggest instead and why.

Our response:

We agree with the proposed amendments and have no comments.

6. IFRS 9 Financial Instruments (transaction price)

Question: *Do you agree with the IASB's proposals to amend the IFRS Accounting Standards and accompanying guidance in the manner described in this Exposure Draft?*

If not, why not? If you disagree with these proposals, please explain what you would suggest instead and why.

Our response:

We agree with the proposed amendments and have no comments.

7. IFRS 10 Consolidated Financial Statements *(determination of a “de facto agent”)

Question: *Do you agree with the IASB’s proposals to amend the IFRS Accounting Standards and accompanying guidance in the manner described in this Exposure Draft?*

If not, why not? If you disagree with these proposals, please explain what you would suggest instead and why.

Our response:

We agree that the proposed amendment to paragraph B74 creates a closer and more consistent context to paragraph B75. However, in our view, it is not clear how the amendment would preclude unintended consequences such as the conclusion that more than one investor may conclude that controls an investee through its de-facto agent’s decision-making rights and its indirect exposure, or rights, to variable returns (as expressed in the Staff Paper AP12D: Determination of a 'de facto agent' (IFRS 10)—Potential annual improvement, from the February IASB meeting).

We understand that this issue raised is unlikely to comply with paragraphs 6.10–6.13 of the Due Process Handbook criteria for annual improvements as this can be viewed as a more than minor unintended consequence. Therefore, the Board could consider undertaking research to determine if there is widespread effect of this matter and, if so, undertake a narrow scope maintenance project.

8. IAS 7 Statement of Cash Flows (cost method)

Question: *Do you agree with the IASB’s proposals to amend the IFRS Accounting Standards and accompanying guidance in the manner described in this Exposure Draft?*

If not, why not? If you disagree with these proposals, please explain what you would suggest instead and why.

Our response:

We agree with the proposed amendments and have no comments.