February 15th, 2016

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

Dear IASB members,

Exposure Draft ED 2015/10 – Annual Improvements to IFRSs 2014-2016 Cycle

The Israel Accounting Standards Board welcomes the opportunity to comment on the IASB's Exposure Draft *ED 2015/10 – Annual Improvements to IFRSs 2014-2016 Cycle* published in November 2015.

Please find below our detailed comments for the questions raised in the ED:

Proposed amendments to IFRS 12

Question 1 – Proposed amendment

Do you agree with the IASB's proposal to amend the Standards as described in the Exposure Draft?
If not, why and what alternative do you propose?

We agree with the IASB's proposal to clarify the scope of IFRS 12. However, we have a few comments regarding the drafting of paragraphs 5A and B17:

1. While paragraph 5A states that the requirements of IFRS 12 (except paragraphs B10-B16) apply to an entity's interest in a subsidiary, a joint venture or an associate that are classified as held for sale, as held for distribution to owners or **as discontinued operations**, paragraph B17 only refers to those interests that are classified as held for sale

or as held for distribution to owners, but does not refer to those interests classified as discontinued operations. The ED does not include the reasoning for that difference. It is unclear whether the IASB's intentions were that IFRS 12 should apply to discontinued operations that the entity already disposed of and what is the benefit of IFRS 12's disclosure requirements (except B10-B16) for discontinued operation already disposed.

2. Paragraphs 12(g), 21(b)(ii), 21(c) include the requirement to present summarised financial information on a subsidiary, joint venture or an associate. In our opinion, paragraph 5A that its purpose is to require application of IFRS 12 (except paragraphs B10-B16) for an entity's interests classified as held for sale or held for distribution to owners, should also refer to those paragraphs rather than only to paragraphs B10-B16.
3. Paragraph BC2 states "…Paragraph B17 states that the disclosure requirements in paragraph B10-B16 do not apply to the interests within the scope of IFRS 12 that are classified as held for sale or discontinued operations in accordance with IFRS 5….". Yet, paragraph B17 does not refer to those interests classified as discontinued operations, but to those interests classified as held for distribution to owners.

Proposed amendments to IAS 28

Question 1 – Proposed amendment

Do you agree with the IASB's proposal to amend the Standards as described in the Exposure Draft?
If not, why and what alternative do you propose?

We agree with the IASB's proposal to amend IAS 28.

However, we have two comments regarding the amendment and the interaction with IFRS 10:

1. Paragraph 33 of IFRS 10 requires a parent of an investment entity to consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity. Nevertheless, paragraph 36A of IAS 28 allows an entity that is not itself an investment entity to retain the fair value measurement applied by its investment entity associate or joint venture to the investment entity's associate's or joint venture's interests in subsidiaries. The proposal to allow that election separately for each investment entity associate or joint venture emphasises the existing gap between the accounting for an investment entity subsidiary and an investment entity joint venture or associate in the consolidated financial statements of a

parent that is not itself an investment entity. We do not see justification for such a difference in the accounting treatment for subsidiaries and associates and joint ventures by a parent that is not itself an investment entity.

2. The definition of an investment entity in paragraph 27 of IFRS 10 requires that an investment entity measures and evaluates the performance of substantially all of its investments on a fair value basis. Paragraph B85K-M of IFRS 10 provides the actions required in order to demonstrate that the entity meets this element of the definition of an investment entity.

   Assuming the reporting entity is indeed an investment entity, we understand that accounting for certain of its associates and joint ventures under the equity method, might contradict the conclusion that the entity meets the definition of an investment entity (unless the equity method investments are deemed to be negligible investments). This assertion is supported by one of the required actions, stipulated by paragraph B85L(b) of IFRS 10, that such an entity should elect the exemption from applying the equity method, under IAS 28, for its investments in associates and joint ventures.

   Having said all of the above, a question might arise as to how the current version of IAS 28 (which permits a venture capital organisation, or other qualifying entity, to elect to measure its associates and joint ventures at either the equity method or at fair value through profit or loss) and the proposed amendment (which proposes that this election would be available on an investment-by-investment basis) aligns with the above-mentioned element of definition of investment entity under IFRS 10.

We appreciate the opportunity to provide our comments.

Sincerely,
Dov Sapir, CPA, Chairman
Israel Accounting Standards Board