



1906/39151

January 27, 2016

International Accounting Standards Board  
30 Cannon Street  
London EC4M6XH  
United Kingdom

Dear Sir/Madam,

Re: **Exposure Draft – Annual Improvements to IFRSs 2014-2016 Cycle**

We appreciate the opportunity to respond to Exposure Draft "Annual Improvements to IFRSs 2014-2016 Cycle" issued by the International Accounting Standards Board (IASB). The response stated below represents the views of the Institute of Certified Public Accountants in Israel.

**Proposed amendment to IAS 28 (measuring investees at fair value through profit or loss on an investment-by-investment basis)**

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?*

Response to questions 1:

We **do not** agree with the proposed amendment for the following reasons:

1. The proposed amendment might result in earnings management (or "cherry picking"), where an entity chooses a measurement method in accordance with its forecast regarding the investee's earnings. For example, an investor in a start-up company, which does not generate revenues in its early years of operation but has a potential to an increase in value due to its expected growth in the future, might choose to measure the investment at fair value in order not to recognize the investee's losses. On the other hand, an investor in a mature profitable entity

might choose to measure the investment in accordance with the equity method in order to recognize the investee's profits.

2. IAS 8.13 states that:

*"An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an IFRS specifically requires or permits categorisation of items for which different policies may be appropriate. If an IFRS requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category."*

IAS 8 states that IFRSs may specifically require or permit categorization of items for which different policies may be appropriate. However, we do not find the proposed choice of measurement to be appropriate in the case of venture capital organizations or similar entities, nor do we believe that the IASB has properly justified such an investment-by-investment choice. This is also contradictory to the accounting requirements that apply to investment entities - where measuring investments in fair value is mandatory (i.e., no choice is available).

Furthermore, the proposed amendment permits arbitrary choice of measurement rather than "categorisation of items for which different policies may be appropriate", as stated in IAS 8 above. Therefore, if the IASB wishes to allow several choices of measurement, it shall clearly define the circumstances in which (or the categories to which) venture capital organizations (or similar entities) may choose to use the fair value method and the circumstances in which (or the categories to which) they may choose to use the equity method.

3. The proposed amendment is inconsistent with the IASB's position in recent years not to allow arbitrary selection of accounting for similar transactions since it reduces comparability. Even when the IASB decided to introduce such choices of measurement basis, it was often considered a compromise (for example, with regard to the option to measure non-controlling interests in business combination either at fair value or as the proportionate share of the acquiree's identifiable net assets, the IASB itself stated that introducing a choice of measurement basis was a result of the lack of consensus among board members (IFRS 3.BC210)).

We believe that in the case of applying IAS 28 by a venture capital organization or similar entities, there are no circumstances that necessitate introducing a choice of measurement, which might result in reduced comparability and earnings management.

Sincerely yours

A handwritten signature in blue ink, appearing to be 'D.G.' followed by a long horizontal stroke and a small flourish at the end.

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David Goldberg  
Chair of the Professional Council  
and former president of the Institute

A handwritten signature in blue ink, appearing to be 'AR' followed by a long horizontal stroke and a flourish at the end.

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Arnon Ratzkovsky  
Chair of the Financial Reporting Standards  
Committee