STAFF PAPER

July 2014

IASB Meeting

Project	**Finalisation of *Annual Improvements to IFRSs* 2012-2014 Cycle**
Paper topic	Summary of Due Process followed

CONTACT(S) Denise Durant ddurant@ifrs.org +44 (0)20 7246 6469

Introduction

1. The IASB published its Exposure Draft ED/2013/11 *Annual Improvements to IFRSs 2012–2014 Cycle* (the ED) in December 2013. The comment period ended on 13 March 2014. The IASB received 64 comment letters.

2. At its May 2014 meeting the IFRS Interpretations Committee (the Interpretations Committee) deliberated upon the comments received on five proposed amendments that had been included in the ED. The Interpretations Committee recommended to the IASB that it should finalise all the proposed amendments.

3. At its June 2014 meeting the IASB discussed the comment letter analyses and recommendations from the Interpretations Committee (see Agenda Papers 13–13F for this IASB meeting) and agreed that it should finalise all the proposed amendments.

4. The *Annual Improvements to IFRSs* 2012–2014 Cycle includes the following five amendments (the final amendments):

   (a) IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—Changes in methods of disposal.

   (b) IFRS 7 *Financial Instruments: Disclosures*—Servicing contracts.

   (c) IFRS 7 *Financial Instruments: Disclosures*—Applicability of the amendments to IFRS 7 to condensed interim financial statements.

   (d) IAS 19 *Employee Benefits*—Discount rate: regional market issue.

(e) IAS 34 *Interim Financial Reporting*—Disclosure of information 'elsewhere in the interim financial report'.

5. Having obtained an IASB decision on the finalisation of these issues, we want to start the drafting and balloting of the final amendments.

6. The purpose of this paper is therefore to:

(a) provide the IASB with a brief summary of the final amendments (see **Appendix A**);

(b) assess whether the final amendments can be finalised or need to be re-exposed before finalisation;

(c) discuss the mandatory effective date of the final amendments; and

(d) explain the steps in the due process that the IASB has taken since the publication of the ED (see **Appendix B**) and ask the IASB to confirm that it has complied with the due process requirements to date.

Summary of the final amendments

7. The *Annual Improvements to IFRSs* 2012–2014 Cycle would contain five amendments affecting four Standards.

8. All of these issues have also been discussed by the Interpretations Committee.

9. A summary of these amendments, taking into account modifications resulting from the comment letter analysis and the discussions of the Interpretations Committee and the IASB, are given in **Appendix A** of this paper.

Annual Improvements criteria

10. In January 2013, the Trustees approved the updated *Due Process Handbook*. In accordance with the updated *Due Process Handbook*, the IASB assesses issues against the following criteria when deciding whether an issue should be addressed by amending Standards within the Annual Improvements project:

(a) The amendment has one or both of the following characteristics:

(i) clarifying the wording in a Standard—"Clarifying a Standard involves either replacing unclear wording in existing Standards or providing guidance where an absence of guidance is causing concern. Such an amendment maintains consistency with the existing principles within the applicable Standard and does not propose a new principle or change an existing principle" (see paragraphs 6.11–6.12 of the updated *Due Process Handbook*); or

(ii) correcting relatively minor unintended consequences, oversights or conflicts between existing requirements of Standards—"Resolving a conflict between existing requirements of Standards includes addressing oversights or relatively minor unintended consequences that have arisen as a result of the existing requirements of Standards. Such amendments do not propose a new principle or a change to an existing principle" (see paragraphs 6.11 and 6.13 of the updated *Due Process Handbook*).

(b) Annual Improvements should be well-defined and narrow in scope. As a guide, if the IASB takes several meetings to reach a conclusion, it is an indication that the cause of the issue is more fundamental than can be resolved within the Annual Improvements process (see paragraphs 6.10 and 6.14 of the updated *Due Process Handbook*).

11. At its June 2014 meeting, the staff presented to the IASB an updated assessment of the amendments against the Annual Improvements criteria and included this assessment in Agenda Papers 13A–13E. In this assessment the staff determined that the final amendments satisfy the Annual Improvements criteria.

Finalisation or re-exposure

12. Paragraph 6.25 of the updated *Due Process Handbook* specifies the criteria by which the IASB assesses whether the proposals can be finalised or whether they should be re-exposed.

13. In considering whether there is a need for re-exposure, the IASB:

(a) identifies substantial issues that emerged during the comment period on the Exposure Draft and that it had not previously considered;

(b) assesses the evidence that it has considered;

(c) determines whether it has sufficiently understood the issues, implications and likely effects of the new requirements and actively sought the views of interested parties; and

(d) considers whether the various viewpoints were appropriately aired in the Exposure Draft and adequately discussed and reviewed in the Basis for Conclusions.

14. Taking into consideration the re-exposure criteria in paragraphs 6.25–6.29 of the updated *Due Process Handbook*, we think, subject to IASB discussions at this meeting, that all the five final amendments listed in paragraph 4 of this paper should be finalised without re-exposure.

Effective date

15. Paragraph 6.35 of the updated *Due Process Handbook* requires that the mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements.

16. Annual Improvements are by definition clarifying or correcting in nature, well-defined and sufficiently narrow in scope. Consequently, we think that a period of at least six months between issuing the final amendments and the mandatory effective date is sufficient.

17. The ED proposed a mandatory effective date of 1 January 2016. We expect to issue the final amendments in Q3 of 2014. Consequently, we propose to maintain the mandatory effective date for the amendments of 1 January 2016.

Intention to dissent

18. In accordance with paragraph 6.23 of the Due Process Handbook, we are formally asking whether any members intend to dissent from publishing the final amendments before we ballot.

Confirmation of the due process steps

19. In **Appendix B** we have summarised the due process steps followed by the IASB since publishing the ED. For summarising these steps and thereby demonstrating that the IASB has met all the due process requirements to date, we used the reporting template 'Development and publication of Annual Improvements Exposure Drafts' in the Due Process Protocol.

Staff recommendation

20. We think that the IASB has met all of the mandatory due process steps to support the finalisation of the five amendments.

Questions for the IASB
1. Does the IASB agree that the amendments to be finalised as part of the 2012–2014 Cycle of Annual Improvements to IFRSs do not need to be re-exposed before finalisation? 2. Does the IASB agree that the mandatory effective date of the amendments should be 1 January 2016? 3. Do any IASB members plan to dissent from the publication of the proposed amendments? 4. Is the IASB satisfied that all required due process steps applicable so far have been complied with? 5. Does the IASB agree that we can proceed with the drafting and the balloting of the final amendments?

Appendix A: Summary of the amendments

A1. The amendments addressed are set out in the following table with further details in the paragraphs below it.

IFRS	Subject of amendment	Contact	Interpretations Committee meeting(s)/ agenda papers ref	IASB meeting(s) /agenda papers ref
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	Changes in methods of disposal	Denise Durant	May 2013—AP 20B May 2014–AP17A and AP17A(i)	Oct 2013—AP 18 June 2014–AP13A and AP13F
IFRS 7 *Financial Instruments: Disclosure*	Servicing contracts	Hannah King	Jan 2013—AP 11 May 2013—AP 7 Sep 2013—AP 5 May 2014–AP17B and AP17B(i)	Feb 2013 AP 9C Oct 2013—AP 15 June 2014–AP13B and AP13F
IFRS 7 *Financial Instruments: Disclosure*	Applicability of the amendments to IFRS 7 to condensed interim financial statements	Leonardo Piombino	March 2013—AP 16 July 2013—AP 16 May 2014–AP17C	Oct 2013—AP 17 June 2014–AP13C and AP13F
IAS 19 *Employee Benefits*	Discount rate: regional market issue	Leonardo Piombino	July 2013—AP 11A May 2014 –AP17D	Oct 2013—AP 16 June 2014–AP13D and AP13F
IAS 34 *Interim Financial Reporting*	Disclosure of information 'elsewhere in the interim report'	Denise Durant	Nov 2012—AP 16 May 2014–AP17E and AP17E(i)	May 2013—AP 17 June 2014–AP13E and AP13F

IFRS 5—Changes in methods of disposal

A2. The ED included a proposal to amend IFRS 5. This amendment:

(a) clarifies the accounting for a change in a disposal plan from a plan to sell a non-current asset (or disposal group) to a plan to distribute a non-current asset (or disposal group); and

(b) provides guidance in IFRS 5 for the discontinuation of held-for-distribution accounting.

A3. At its meeting in June 2014 the IASB tentatively agreed that it should finalise the proposed amendment and further:

(a) clarify that a change from held for sale (HFS) to held for distribution (HFD) (or vice versa):

(i) does not change the 'date of classification' as determined in paragraphs 8 and 12A of IFRS 5; and

(ii) should not be considered to be an event or circumstance that may extend the period to complete a sale (in accordance with paragraph 9 and Appendix B of IFRS 5) or a distribution.

(b) clarify that if an entity reclassifies an asset (or a disposal group) directly from being HFS to HFD (or vice versa), the value of the asset (or the disposal group) is updated in accordance with paragraph 15 or 15A of IFRS 5. Any write-down in value (impairment loss) or subsequent reversal shall be recognised in accordance with paragraphs 20–25 of IFRS 5.

(c) explain that a 'direct reclassification' means that an entity moves the disposal group from one method of disposal to another without any time lag, so that there is no interruption of the application of the requirements in IFRS 5 for HFS and HFD disposal methods; judgement may be required to determine if there was a 'direct reclassification'.

(d) revise paragraphs 27(b), 28 and 29 to include references to 'HFD' or 'costs to distribute'.

(e) explain that the proposed transition (ie prospective application) is in line with the transition that was required by IFRIC 17 *Distributions of Non-cash Assets to Owners* when it amended IFRS 5. The Interpretations Committee observed that prospective application is required to avoid the potential use of hindsight in connection with the judgement required.

IFRS 7—Servicing contracts

A4. The ED included a proposal to add guidance that clarifies how an entity should apply the guidance in paragraph 42C of IFRS 7 to a servicing contract in order to decide whether a servicing contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E–42H of IFRS 7.

A5. At its meeting in June 2014 the IASB tentatively agreed that it should finalise the proposed amendment to IFRS 7. Having considered the comments received, the IASB tentatively agreed that:

(a) it should not include the presumption that the right to earn a fee for servicing the financial asset is generally continuing involvement; and

(b) it should clarify that the term 'continuing involvement' in IFRS 7 is used in a different way from that term in IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement*).

A6. The IASB tentatively agreed that it should retain the proposed transition provision that an entity need not apply the proposed amendment to any period presented that begins before the annual period for which the entity first applies those amendments.

IFRS 7—Applicability of the amendments to IFRS 7 to condensed interim financial statements

A7. The ED included a proposal to clarify that the additional disclosure required by the amendments to IFRS 7 *Disclosure–Offsetting Financial Assets and Financial Liabilities* is not specifically required in condensed interim financial statements that are prepared in accordance with IAS 34 *Interim Financial Reporting* for all interim periods. However, the additional disclosure is provided when its inclusion would be required in accordance with the general principles of IAS 34.

A8. At its June 2014 meeting, the IASB tentatively agreed that it should finalise the proposed amendment to paragraph 44R of IFRS 7 as exposed.

IAS 19—Discount rate: regional market issue

A9. The ED included a proposal to clarify that the depth of the market for high quality corporate bonds should be assessed at the currency level.

A10. At its June 2014 meeting, the IASB tentatively agreed to finalise the proposed amendment to paragraph 83 of IAS 19 as exposed.

A11. The IASB also tentatively agreed that it should further clarify that the amendment should be applied from the beginning of the earliest comparative period presented in the first financial statements in which the entity applies the amendment, with any cumulative catch-up adjustment recognised in opening retained earnings.

IAS 34—Disclosure of information 'elsewhere in the interim report'

A12. The ED included a proposal to the meaning of disclosure of information 'elsewhere in the interim financial report' in paragraph 16A of IAS 34 and requires the inclusion of a cross-reference from the interim financial statements to the location of this information.

A13. At its June 2014 meeting, the IASB tentatively agreed that it should finalise the proposed amendment to IAS 34 and that it should further clarify that:

(a) the amendment is not extending the scope of the interim financial report, because the disclosures required in paragraph 16A(a)–(k) of IAS 34 are part of the selected explanatory notes (and, consequently, part of the interim financial report) despite those disclosures being presented in another location outside the financial statements. Without these disclosures, the interim financial report would be incomplete; and

(b) users should have access to the referenced material on the same basis and on the same terms as they have for accessing the financial statements where the reference is made from.

Appendix B: Confirmation of Due Process steps followed to finalise the *Annual Improvements to IFRSs* 2012-2014 Cycle

B1. The following table sets out the required Due Process steps followed by the IASB in the development of the *Annual Improvements to IFRSs* 2012-2014 Cycle:

Development and publication of Annual Improvements

Step	*Required/Optional*	*Actions*
Consideration of information gathered during consultation		
The IASB posts all of the comment letters that are received in relation to the ED on the project pages	Required	All comment letters that the IASB has received on the ED were posted on the project webpages.
The IASB and the Interpretations Committee meetings are held in public, with papers being available for observers. All decisions are made in public session.	Required	The comment letter analyses prepared by the staff were discussed by the Interpretations Committee on the basis of publicly available agenda papers in the May 2014 Interpretations Committee meeting. In the meeting, the Interpretations Committee recommended that the IASB should finalise all the five proposed amendments. The issues were discussed and approved for finalisation as part of the 2012-2014 cycle of the Annual Improvements process by the IASB at its meeting in June 2014. The project webpage was updated by the staff after every Interpretations Committee or IASB meeting in which issues proposed for inclusion in Annual Improvements were discussed. Agenda papers were posted on the website before every Interpretations Committee or IASB meeting. The results of the discussions of the Interpretations Committee and the IASB are also summarised in the *IFRS IC Update* and the *IASB Update* for each meeting.
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs		Annual Improvements are, by definition, clarifying or correcting in nature, well defined and sufficiently narrow in scope so that the consequences of the proposed changes have been considered. The consequences of the proposed changes have been considered for each amendment as part of the IASB's discussions, but because of the narrow scope and the expected limited consequences of the amendments, an Effect Analysis is not necessary.
Finalisation		
Due process steps are reviewed by the IASB.	Required	In this paper we are demonstrating that all the required due process steps applicable to date have been performed.
Need for re-exposure of a Standard is considered.	Required	Analysis of the need to re expose is included in the main body of this paper.

A check is performed to ensure that each amendment included in the package meets the Annual Improvements criteria.	Required	All the papers presented to the IASB in June 2014 included an updated assessment of the proposed amendments against the Annual Improvements criteria.
The IASB sets an effective date for the Standard, considering the need for effective implementation, generally providing at least a year.	Required	We expect to publish the final amendments in Q3 of 2014. Because Annual Improvements are, by definition, clarifying or correcting in nature, well defined and sufficiently narrow in scope, we think that an effective date of 1 January 2016 gives: • jurisdictions sufficient time to incorporate the new requirements into their legal systems; and • preparers sufficient time to prepare for the new requirements (see paragraph 6.35 of the updated Due Process Handbook)
Drafting		
Drafting quality assurance steps are adequate.	Required	The Translations team reviewed the ED and will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Required	The XBRL team reviewed the ED and will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Optional	We have performed an editorial review of the pre-ballot draft with external parties. The comments will be collected and considered by the IASB.
Drafting quality assurance steps are adequate.	Optional	The Editorial team will review the drafts during the ballot process.
Publication		
Press release to announce publication of the *Annual Improvements to IFRSs 2012-2014 Cycle*.	Required	The press release will be posted on the IFRS website when the final amendments are published.
A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the IASB has responded to the comments received		A Feedback Statement is not needed because Annual Improvements are, by definition, clarifying or correcting in nature, well-defined and sufficiently narrow in scope.
Final publication of the *Annual Improvements to IFRSs 2012-2014 Cycle*		Final amendments will be made available on eIFRS on publication date. The DPOC will be informed of the official release.