

## STAFF PAPER

July 2016

## IASB Meeting

Project	Exposure Draft—Annual Improvements to IFRSs 2014–2016 Cycle		
Paper topic	Due Process Steps		
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## Introduction

1. The Board published its Exposure Draft *Annual Improvements to IFRSs 2014–2016 Cycle* (the ED) in November 2015. The comment period ended on 17 February 2016. The Board received 50 comment letters.
2. The ED includes the following three proposed amendments:
  - (a) IFRS 1 *First-time Adoption of International Financial Reporting Standards*—Deletion of short-term exemptions for first-time adopters.
  - (b) IFRS 12 *Disclosure of Interests in Other Entities*—Clarification of the scope of the disclosure requirements in IFRS 12.
  - (c) IAS 28 *Investments in Associates and Joint Ventures*—Measuring associates and joint ventures at fair value through profit or loss (FVTPL) on an investment-by-investment basis.
3. At its July 2016 meeting, the Board will discuss the comment letter analyses related to the ED and proposed amendments (see Agenda Papers 12C–12E for this meeting). We have recommended that the Board finalise the amendments to IFRS 1, IFRS 12 and IAS 28.
4. Subject to obtaining Board approval to finalise these amendments, we will begin the balloting process.

## Objective and structure of the paper

5. The purpose of this paper is therefore to:
- (a) provide the Board with a brief summary of the amendments (see **Appendix A**);
  - (b) assess whether the amendments need to be re-exposed before finalisation;
  - (c) discuss the effective date of the amendments;
  - (d) ask Board members whether they intend to dissent to any of the amendments; and
  - (e) explain the steps in the *Due Process Handbook* that the Board has taken in developing the amendments (see **Appendix B**), and ask the Board to confirm that it has complied with the due process requirements.

## Summary of the amendments

6. The ED includes three amendments affecting three Standards. A brief description of these amendments is provided below. We expand upon this description in **Appendix A** to this paper.
- (a) IFRS 1—This amendment deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1 because they have served their intended purpose.
  - (b) IFRS 12—This amendment specifies that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to interests that are classified as held for sale, as held for distribution to owners in their capacity as owners or as discontinued operations.
  - (c) IAS 28—This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at FVTPL applying IFRS 9 is available for each associate or joint venture, at the initial recognition of the associate or joint venture.

## Annual Improvements criteria

7. In accordance with the *Due Process Handbook*, the Board assesses issues against the following criteria when deciding whether to address an issue by amending Standards within the Annual Improvements process:
- (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 *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 *Due Process Handbook*).
  - (b) Annual Improvements should be well-defined and narrow in scope. As a guide, if the Board 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 *Due Process Handbook*).
8. We prepared an initial assessment against the annual improvements criteria for each of the amendments included in the ED. This assessment is included in the following agenda papers:
- (a) IFRS 1—December 2013 Board meeting ([Agenda Paper 12D](#))
  - (b) IFRS 12—July 2015 Board meeting ([Agenda Paper 12D](#))

- (c) IAS 28—January 2015 Board meeting ([Agenda Paper 12D](#))

### Re-exposure

9. We recommend that the Board does not re-expose the amendments within the Annual Improvements 2014-2016 Cycle. In making this recommendation, we have considered the requirements in paragraphs 6.25-6.29 of the *Due Process Handbook*.
10. Overall, most respondents supported the proposed amendments to IFRS 1, IFRS 12 and IAS 28. We have recommended that the Board finalise the proposed amendments, with some clarifications to those amendments. Those clarifications do not include substantial changes.
11. Consequently, we think that there are no substantive changes being made on which respondents have not had the opportunity to comment.

### Effective date

14. Paragraph 6.35 of the *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. The ED did not propose an effective date.
15. We think that a period of twelve months between issuing the final amendments and the mandatory effective date would give preparers sufficient time to prepare for the new requirements. We expect to issue the final amendments in the fourth quarter of 2016. Consequently, we propose an effective date for the amendments to IFRS 1 and IAS 28 of 1 January 2018, with earlier application permitted<sup>1</sup>.

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<sup>1</sup> Please see agenda papers 12C and 12E for further discussion about the effective date.

16. Regarding the amendment to IFRS 12, we propose an earlier effective date of 1 January 2017. This is because:
- (a) an effective date of 1 January 2017 typically gives an entity more than one year to prepare to implement the amendments.
  - (b) the amendments are clarifying in nature.
  - (c) entities are likely to already have the information necessary to implement the proposed amendments.
17. Agenda paper 12D for this meeting provides further information about our recommendation for the effective date of the amendments to IFRS 12.

### **Intention to dissent**

18. In accordance with paragraph 6.23 of the *Due Process Handbook*, we are asking whether any Board member intends to dissent from the issuance of the amendments within the Annual Improvements 2014-2016 Cycle.

### **Confirmation of the due process steps**

19. In **Appendix B** to this paper, we have summarised the due process steps we have taken in developing the amendments. We note that the required due process steps applicable for the issuance of the Annual Improvements have been completed.

**Questions for the Board**

1. **Re-exposure**—does the Board agree with the staff recommendation not to re-expose the amendments within the Annual Improvements 2014-2016 Cycle?
2. **Effective date**—does the Board agree that the effective date for the amendments to IFRS 1 and IAS 28 is 1 January 2018 (with earlier application permitted), and for the amendments to IFRS 12 is 1 January 2017?
3. **Dissent**—does any Board member intend to dissent to the issuance of the Annual Improvements 2014-2016 Cycle?
4. **Permission to ballot**—is the Board satisfied that the due process requirements have been met and that it has undertaken sufficient consultation and analysis to begin the balloting process for the Annual Improvements 2014-2016 Cycle?

## Appendix A: Summary of the amendments

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

Standard	Subject of amendment	Interpretations Committee meeting(s)/ agenda papers ref	Board meeting(s) /agenda papers ref
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	Deletion of short-term exemptions for first-time adopters	N/A	Dec 2013— <a href="#">AP 12D</a> Jul 2014— <a href="#">AP 12B</a> Apr 2015— <a href="#">AP 12B</a> May 2015— <a href="#">AP 12A</a>
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	Clarification of the scope of the disclosure requirements in IFRS 12	May 2015— <a href="#">AP3</a> and <a href="#">AP3C</a>	July 2015 <a href="#">AP 12D</a>
IAS 28 <i>Investments in Associates and Joint Ventures</i>	Measuring associates and joint ventures at FVTPL on an investment-by-investment basis	Nov 2014— <a href="#">AP 16</a>	Jan 2015— <a href="#">AP 12D</a> Apr 2015— <a href="#">AP 12B</a> May 2015— <a href="#">AP 12A</a>

### ***IFRS 1—Deletion of short-term exemptions for first-time adopters***

A2. The ED proposed to delete the short-term exemptions in paragraphs E3–E7 of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, because the relief provided in those paragraphs had served its intended purpose.

A3. Agenda Paper 12C for this meeting presents the comment letter analysis for the proposed amendments to IFRS 1. In that paper, we have recommended a few clarifications to the amendments, none of which substantially change the proposed amendments.

### ***IFRS 12—Clarification of the scope of the disclosure requirements***

A4. The ED proposed to amend IFRS 12 to clarify the scope of the Standard. It proposed to do so by specifying that the disclosure requirements in IFRS 12, except for those in paragraphs B10–B16, apply to an entity’s interests listed in paragraph 5 of IFRS 12 that are classified as held for sale, as held for distribution

to owners in their capacity as owners or as discontinued operations applying IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

- A5. Agenda Paper 12D for this meeting presents the comment letter analysis for the proposed amendments to IFRS 12. Respondents did not raise any significant concerns about the proposed amendments, and we have recommended finalising those amendments.

***IAS 28—Measuring associates and joint ventures at FVTPL on an investment-by-investment basis***

- A6. When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation or other qualifying entity, the entity may elect to measure that investment at FVTPL. The Board proposed to amend IAS 28 to clarify that the election is available for each investment in an associate or a joint venture on an investment-by-investment basis, upon initial recognition.
- A7. In addition, the ED proposed a similar clarification for a non-investment entity that has an interest in an investment entity associate or joint venture.
- A8. Agenda Paper 12E for this meeting presents the comment letter analysis for the proposed amendments to IAS 28. We have recommended some changes to clarify those amendments as follows:
- (a) redraft the amendment to paragraph 18 to further clarify that an entity can choose to measure each associate or joint venture at FVTPL or using the equity method;
  - (b) explicitly state in paragraph 45E of IAS 28 that an entity applies the amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
  - (c) clarify in the Basis for Conclusions the rationale for amending paragraph 36A of IAS 28.
- A9. We have recommended finalising the amendments to IAS 28.



## Appendix B: Due Process steps

B1. The following table sets out the due process steps taken by the Board:

### Development and publication of Annual Improvements

<i>Step</i>	<i>Required/Optional</i>	<i>Actions</i>
<b>Consideration of information gathered during consultation</b>		
<b>The Board posts all of the comment letters that are received in relation to the ED on the project pages</b>	Required	All comment letters received by the Board have been posted on the project <a href="#">webpages</a> .
<b>The Board and the Interpretations Committee meetings are held in public, with papers being available for observers. All decisions are made in public session.</b>	Required	The Board will discuss the comment letter analyses and recommendations on the basis of publicly available agenda papers at the July 2016 Board meeting.  The project <a href="#">webpages</a> have up-to-date information.
<b>Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs</b>		Annual Improvements are, by definition, clarifying or correcting in nature, well defined and narrow in scope.  The Board has considered the consequences of the proposed changes for each amendment. Because of the narrow scope and the expected limited consequences of the amendments (that are clarifying in nature), we have not prepared an effects analysis.
<b>Finalisation</b>		
<b>Due process steps are reviewed by the Board.</b>	Required	This step will be met by the Agenda Paper.
<b>Need for re-exposure of a Standard is considered.</b>	Required	Analysis of the need to re expose is included in the main body of this paper.
<b>A check is performed to ensure that each amendment included in the package meets the Annual Improvements criteria.</b>	Required	We prepared an initial assessment against the annual improvements criteria for each of the amendments included in the ED. This assessment was included in the following agenda papers: <ul style="list-style-type: none"> <li>IFRS 1 – December 2013 Board meeting – <a href="#">AP 12D</a></li> <li>IFRS 12 – July 2015 Board meeting – <a href="#">AP 12D</a></li> <li>IAS 28 – January 2015 Board meeting – <a href="#">AP 12D</a></li> </ul>
<b>The Board sets an effective date for the Standard, considering the need for effective implementation, generally providing at least a year.</b>	Required	Analysis of the effective date is included in the main body of this paper.

<b>Drafting</b>		
<b>Drafting quality assurance steps are adequate.</b>	Required	The Translations team will review the pre-ballot draft.
<b>Drafting quality assurance steps are adequate.</b>	Required	The Taxonomy team will review the pre-ballot draft.
<b>Drafting quality assurance steps are adequate.</b>	Optional	<p>The Editorial team will review drafts during the balloting process.</p> <p>We will perform an editorial review of the pre-ballot draft with external parties.</p> <p>The pre-ballot draft will be made available to members of the International Forum of Accounting Standard-Setters (IFASS).</p>
<b>Publication</b>		
<b>Press release to announce publication of the <i>Annual Improvements to IFRSs 2014-2016 Cycle</i>.</b>	Required	A press release will be published with the final amendments.
<b>A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the Board has responded to the comments received</b>		Not considered necessary because Annual Improvements are, by definition, clarifying or correcting in nature, well-defined and narrow in scope.
<b>Final publication of the <i>Annual Improvements to IFRSs 2014-2016 Cycle</i></b>		Final amendments will be made available on eIFRS on the publication date. The DPOC will be informed of the official release.