

STAFF PAPER

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IASB Meeting

Project	Annual Improvements to IFRS Standards 2015-2017 Cycle		
Paper topic	Due Process Steps		
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Introduction

1. The International Accounting Standards Board (Board) published the [Exposure Draft Annual Improvements to IFRS Standards 2015-2017 Cycle](#) (Exposure Draft) in January 2017.
2. The Exposure Draft included the following three proposed amendments:
 - (a) IAS 12 *Income Taxes*—Income tax consequences of payments on financial instruments classified as equity;
 - (b) IAS 23 *Borrowing Costs*—Borrowing costs eligible for capitalisation; and
 - (c) IAS 28 *Investments in Associates and Joint Ventures*—Long-term interests in an associate or joint venture.
3. At its May and June 2017 meetings, the Board analysed feedback on the proposed amendments to IAS 28. Considering the time-critical nature of those amendments, the Board tentatively decided to finalise the amendments to IAS 28 separately as a narrow-scope amendment.
4. At its July 2017 meeting, the Board analysed feedback on the proposed amendments to IAS 12 and IAS 23, and tentatively decided to finalise those amendments.
5. In addition, at its April 2017 meeting, the Board analysed feedback on the proposed amendments to IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*—Accounting for Previously Held Interests, and tentatively decided to finalise those amendments. The proposed amendments to IFRS 3 and IFRS 11 were included in the

Exposure Draft *Definition of a Business and Accounting for Previously Held Interests*. We think the amendments to IFRS 3 and IFRS 11 meet the criteria for annual improvements, and suggest finalising them as part of the Annual Improvements 2015-2017 Cycle.

Objective

6. The purpose of this paper is to:
 - (a) confirm that the amendments to IFRS 3 and IFRS 11, IAS 12 and IAS 23 meet the criteria for annual improvements;
 - (b) set out the due process steps that the Board has taken in developing those amendments; and
 - (c) ask the Board to confirm it is satisfied that it has complied with the applicable due process requirements.

Structure of the paper

7. The paper is structured as follows:
 - (a) summary of the amendments;
 - (b) assessment against criteria for annual improvements;
 - (c) re-exposure;
 - (d) effective date;
 - (e) intention to dissent;
 - (f) proposed timetable for balloting and publication;
 - (g) confirmation of due process steps; and
 - (h) questions for the Board.
8. Appendix A to this paper summarises the due process steps taken in developing the amendments.

Summary of the amendments

9. The Annual Improvements 2015-2017 Cycle would include the following three amendments:
- (a) Amendments to IFRS 3 and IFRS 11—The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
 - (b) Amendments to IAS 12—The amendments clarify that the requirements in paragraph 52B of IAS 12 apply to all income tax consequences of dividends, and not only to the circumstances described in paragraph 52A of IAS 12.
 - (c) Amendments to IAS 23—The amendments clarify that when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made specifically to obtain that qualifying asset as part of general borrowings.

Annual Improvements criteria

10. Paragraph 6.11 of the [IFRS Foundation Due Process Handbook](#) (Due Process Handbook) states that annual improvements are ‘limited to changes that either clarify the wording in a Standard or correct relatively minor unintended consequences, oversights or conflicts between existing requirements of Standards.’¹
11. The Board assessed whether the proposed amendments to IAS 12 and IAS 23 meet the criteria for annual improvements when it issued the Exposure Draft.² The Board tentatively decided to finalise these proposed amendments with no substantive

¹ Paragraphs 6.10-6.15 of the Due Process Handbook outline the annual improvements criteria.

² This assessment is included in Agenda Paper 12A of the Board’s June 2016 meeting (Amendments to IAS 12) and Agenda Paper 12A of the Board’s October 2015 meeting (Amendments to IAS 23).

changes. We continue to think these amendments meet the criteria to be finalised as part of the Board’s annual improvements process.

12. At its meeting in October 2015, the IFRS Interpretations Committee (Committee) assessed whether the proposed amendments to IFRS 3 and IFRS 11 meet the criteria for annual improvements. The Committee concluded that they do. However, because the Board already planned to propose a separate amendment to IFRS 3 regarding the definition of a business, it decided to expose for comment the proposed amendments to IFRS 3 and IFRS 11 together with that amendment.

13. The amendments to IFRS 3 and IFRS 11 clarify how an entity accounts for previously held interests in particular situations—the amendments do not propose new principles or change existing principles. We continue to think the proposed amendments meet the criteria to be finalised as part of the Board’s annual improvements process.

Re-exposure

14. We recommend that the Board not re-expose these amendments. In making this recommendation, we have considered the requirements in paragraphs 6.25-6.29 of the Due Process Handbook.

15. The Board tentatively decided to finalise the amendments to IFRS 3 and IFRS 11, IAS 12 and IAS 23 with some clarifications. The only substantive change relates to the transition requirements for the amendments to IAS 12.

16. The Board proposed retrospective application of the amendments to IAS 12. Having considered the feedback, the Board tentatively decided that an entity should apply the amendments prospectively to income tax consequences of dividends recognised on or after the beginning of the earliest reporting period presented. The Board concluded that the benefits of retrospective application in this instance would not outweigh the costs.

Effective date

17. Paragraph 6.35 of the Due Process Handbook states:
- ...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.
18. 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 December 2017. Consequently, we propose an effective date of 1 January 2019, with earlier application permitted.

Intention to dissent

19. 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 2015-2017 Cycle.

Proposed timetable for balloting and publication

20. We plan to begin the balloting process in October 2017, and expect to issue the Annual Improvements in December 2017.

Confirmation of the due process steps

21. In Appendix A to this paper, we have summarised the due process steps taken in developing the Annual Improvements. We note that the applicable due process steps to date for the issuance of annual improvements have been completed.

Questions for the Board

1. **Annual Improvements criteria**—does the Board agree that the amendments meet the criteria for inclusion in the annual improvements process?
2. **Re-exposure**—does the Board agree with the staff recommendation not to re-expose the amendments?
3. **Effective date**—does the Board agree with the staff recommendation to require entities to apply the amendments to IFRS 3 and IFRS 11, IAS 12 and IAS 23 to annual reporting periods beginning on or after 1 January 2019, with earlier application permitted?
4. **Dissent**—does any Board member intend to dissent from the issuance of Annual Improvements 2015-2017 Cycle?
5. **Permission to ballot**—is the Board satisfied it has complied with the applicable due process requirements and that it has undertaken sufficient consultation and analysis to begin the balloting process for Annual Improvements 2015-2017 Cycle?

Appendix A: Due Process steps

A1. The following table sets out the due process steps taken by the Board:

<i>Step</i>	<i>Actions</i>
Consideration of information gathered during consultation	
The Board posts all of the comment letters that are received in relation to the Exposure Draft on the project pages.	<p>The proposed amendments to IFRS 3 and IFRS 11: All comment letters received by the Board (80 respondents, of which 67 specifically commented on these proposed amendments) have been posted here.</p> <p>The proposed amendments to IAS 12: All comment letters received by the Board (51 respondents, of which 50 specifically commented on these proposed amendments) have been posted here.</p> <p>The proposed amendments to IAS 23: All comment letters received by the Board (51 respondents) have been posted here.</p>
The Board and Committee meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	<p>The proposed amendments to IFRS 3 and IFRS 11: The Committee discussed the comment letter analysis and staff recommendations at its March 2017 meeting (see Agenda Paper 9). The Board discussed the comment letter analysis and the Committee recommendations at its April 2017 meeting (see Agenda Paper 12D and Agenda paper 12E). The project webpage has up-to-date information.</p> <p>The proposed amendments to IAS 12: The Board discussed the comment letter analysis and staff recommendations at its July 2017 meeting (see Agenda Paper 12A). The project webpage has up-to-date information.</p> <p>The proposed amendments to IAS 23: The Committee discussed the comment letter analysis and staff recommendations at its June 2017 meeting (see Agenda Paper 7). The Board discussed the comment letter analysis and the Committee recommendations at its July 2017 meeting (see Agenda paper 12B). The project webpage has up-to-date information.</p>
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	<p>Annual Improvements are, by definition, clarifying or correcting in nature, well defined and narrow in scope.</p> <p>The Board has considered the consequences of the proposed changes for each amendment—the amendments are clarifying in nature and are expected to reduce or eliminate diversity in practice. Because of the narrow scope and clarifying nature of the amendments, we have not prepared a separate effects analysis.</p>
Finalisation	
Due process steps are reviewed by the Board.	This step will be met by this Agenda Paper.
Need for re-exposure of a Standard is considered.	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.	Analysis of the criteria is included in the main body of this paper.
The Board sets an effective date for the Standard, considering the need for effective implementation, generally providing at least one year.	Analysis of the effective date is included in the main body of this paper.
Drafting	
Drafting quality assurance steps are adequate.	<p>The translations, taxonomy and editorial teams will review drafts during the balloting process.</p> <p>We will perform an editorial review of the pre-ballot draft with some external parties, including Committee members.</p> <p>The pre-ballot draft will be made available to members of the International Forum of Accounting Standard Setters.</p>
Publication	
Press release to announce publication of the Annual Improvements.	A press release will be published with the final amendments.
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.	Not considered necessary because Annual Improvements are, by definition, clarifying or correcting in nature, well-defined and narrow in scope.
Final publication of the Annual Improvements.	The final amendments will be made available on our website when published.