To	David Sidwell, Chairman - Due Process Oversight Committee
From	Alan Teixeira, Director of Technical Activities +44 (20) 7246 6442 ateixeira@ifrs.org
Subject	**Annual Improvements exposure draft**
Date	25 May 2011

In June the Board is planning to issue an exposure draft of annual improvements as part of the most recent annual improvements cycle.

The main matters I wish to draw to the attention of the Due Process Oversight Committee are:

(a) the steps taken to ensure that each amendment meets the recently revised annual improvements criteria; and

(b) the planned exposure period, which is shorter than the norm of 120 days.

The proposed amendments

The current cycle contains seven proposed amendments affecting five IFRSs. Each amendment was developed for the Board by the IFRS Interpretations Committee. The analysis and recommendation of the Interpretations Committee was discussed by the Board. In each of the cases described the Board decided to publish an annual improvement proposal.

The Interpretations Committee recommended rejecting many requests for annual improvements. In each such case the Board reviewed the recommendation. In all such cases the Board concurred with the Interpretations Committee.

This batch of annual improvements was originally scheduled to be published in September 2010. However, the Board decided to delay publication because of the importance of completing other projects and because the annual improvements criteria were being reviewed.

IFRS 1-First-time Adoption of International Financial Reporting Standards

Repeated application of IFRS 1

Circumstances might arise in which an entity ceases to apply IFRSs for a period of time after which it starts to apply IFRSs again. An example is when a listed entity that applies IFRSs delists, applies national GAAP for a period of time, and then relists, applying IFRSs again. The Board is clarifying whether an entity is required to apply IFRS 1 again when it restarts preparing financial statements in accordance with IFRSs. The question submitted to the Board was whether an entity should apply the First-time Adoption standard, IFRS 1, more than once.

The Board is proposing to clarify that an entity is required to apply IFRS 1 when the scope requirements of IFRS 1 are met, even if the entity applied IFRS 1 in a previous set of financial statements.

Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before the transition date

Concerns were raised by first-time adopters about the transition provisions for borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before the date of transition to IFRSs. Some applying IFRS 1 think it is unclear whether borrowing costs capitalised in accordance with previous GAAP should be retained, restated or eliminated in the opening statement of financial position.

The Board is proposing to clarify that an entity that capitalised borrowing costs in accordance with its previous GAAP before the date of transition to IFRSs may carry forward without adjustment the amount previously capitalised in the opening statement of financial position at the date of transition. In addition, the Board is proposing to clarify that borrowing costs incurred after the date of transition that relate to qualifying assets under construction at the date of transition should be accounted for in accordance with IAS 23 *Borrowing Costs*.

IAS 1-Presentation of Financial Statements

Clarification of requirements for comparative information

The Board was asked whether an entity should be required to present a complete set of financial statements when it provides financial statements beyond the minimum comparative information requirements.

The Board is proposing to amend IAS 1 to clarify the requirements for providing comparative information when an entity voluntarily provides additional comparative financial statements. The Board also proposes to address two aspects of the requirements in specific cases where an entity changes accounting policies, or makes retrospective restatements or reclassifications. The Board proposes to make clear that:

(a) the opening statement of financial position should be presented as at the beginning of the required comparative period, and

(b) related notes are not required to accompany this opening statement of financial position.

The objective of financial reporting

The Board is proposing to update the objective of financial statements to be the objective of financial reporting to reflect the *Conceptual Framework for Financial Reporting 2010* that was issued in September 2010.

IAS 16-Property, Plant and Equipment

Classification of servicing equipment

In response to a perceived inconsistency in the classification requirements for servicing equipment, the Board is proposing to clarify that servicing equipment should be classified as items of property, plant and equipment when it is used during more than one period. The amendment will clarify that servicing equipment that does not qualify to be classified as property, plant and equipment should be classified as inventory.

IAS 32-Financial Instruments: Presentation

Income tax consequences of distributions to holders of an equity instrument, and of transaction costs of an equity transaction

The Board was asked to address a perceived inconsistency between IAS 12 *Income Taxes* and IAS 32 *Financial Instruments: Presentation* regarding the recognition of income tax relating both to distributions to holders of an equity instrument and to transaction costs.

The Board is proposing to clarify that income tax relating to distributions to holders of an equity instrument and income tax relating to transaction costs of an equity transaction should be accounted for in accordance with IAS 12.

IAS 34-Interim Financial Reporting

Interim financial reporting and segment information for total assets

The Board was asked to address a perceived inconsistency between IFRS 8 *Operating Segments* and IAS 34 *Interim Financial Reporting* regarding segment information for total assets provided to the chief operating decision maker.

The Board is proposing to clarify the requirements in IAS 34 relating to segment information for total assets for each reportable segment in order to enhance consistency with the requirements in IFRS 8. The proposed amendment clarifies that total assets for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements.

Annual improvements criteria

In February 2011 the Trustees approved changes to the Due Process Handbook for the IASB by adding criteria for the assessment of annual improvements. The new criteria are:

> 65A In planning whether an issue should be addressed by amending IFRSs within the annual improvements project, the IASB assesses the issue against the following criteria. All criteria (a)–(d) must be met to qualify for inclusion in annual improvements.
>
> (a) The proposed amendment has one or both of the following characteristics:
>
> (i) clarifying—the proposed amendment would improve IFRSs by:
>
> - clarifying unclear wording in existing IFRSs, or
> - providing guidance where an absence of guidance is causing concern.
>
> A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle.
>
> (ii) correcting—the proposed amendment would improve IFRSs by:
>
> - resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirement should be applied, or
> - addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs.
>
> A correcting amendment does not propose a new principle or a change to an existing principle.
>
> (b) The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.
>
> (c) It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach a conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.
>
> (d) If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.

At its public meeting in May 2011 the Board assessed each of these improvements against the criteria and in each case concluded that the criteria were met.

Normally, for an exposure draft, I would identify any non-mandatory steps that the Board has decided not to undertake—publish a discussion paper, establish a working group, hold round-tables, undertake field tests. However, annual improvements are by definition narrow, well defined, minor amendments. If it was considered necessary to complete any of these non-mandatory steps for a particular amendment it would not meet the annual improvements criteria.

Comment period

The Board tentatively decided that the comment period should be 90 days. However, the Board also noted, and reported in IASB *Update*, that it intended consulting with the Trustee Due Process Oversight Committee before finalising this comment period, because it is shorter than the standard 120 days.

The Board decided on a shorter comment period because of the narrow and limited nature of the amendments. Each of the previous batches of annual improvements has been exposed for 90 days.

If the Board publishes the exposure draft in mid-June a 90 day comment period would end in mid-September. We are aware that this is shortly after a period which, for some northern hemisphere jurisdictions, is a holiday period. Accordingly, our plan is to set the end of the comment period as being at the end of September which, depending on the publication date for the exposure draft, could be up to a 105 day comment period.

Question for the Due Process Oversight Committee

Does the Committee have any concerns about the curtailed comment period?