ADMIN PAPER

Due Process Oversight Committee

To	David Sidwell, Chairman—Due Process Oversight Committee
From	Alan Teixeira, Senior Director of Technical Activities ateixeira@ifrs.org
Subject	**Exposure Draft ED/2012/1 *Annual Improvements to IFRSs 2010-2012 Cycle***
Date	25 April 2012

On 3 May 2012, the Board is planning to issue an exposure draft of annual improvements as part of the most recent annual improvements cycle.

In this memorandum I wish to:

(a) explain to the Due Process Oversight Committee (the DPOC) the steps in the due process we have taken before the publication of the exposure draft (see Appendix A) and to confirm that we have complied with the due process requirements;

(b) give the DPOC a brief summary of the proposed amendments (see Appendix B);

(c) confirm to the DPOC that the Board has assessed the issues against the Annual Improvements criteria; and

(d) alert the DPOC of the planned 120-day exposure period, notwithstanding the provisions in the draft revised Due Process Handbook which permit a 90-day comment period for Annual Improvements.

Due process steps

In Appendix A we have summarised the due process steps that we have taken in developing the exposure draft ED/2012/1 *Annual Improvements to IFRSs 2010-2012 Cycle*. For summarising these steps and thereby demonstrating that we have met all the due process requirements, we used the reporting template ‘Development and publication of an **exposure draft** for an IFRS, practice guidance or Conceptual Framework chapter’ in ‘Appendix 4—Due Process Protocol’ of the draft of the revised due process handbook.

The proposed amendments

The current cycle for Annual Improvements contains eleven proposed amendments affecting ten IFRSs and the Basis for Conclusions of IFRS 13 *Fair Value Measurement*. The Board discussed each of the issues and decided to publish a proposal to address these through the Annual Improvements process. All but one of these issues was also discussed by the Interpretations Committee, and the Interpretations Committee's recommendations on how to proceed were communicated to the Board. The dates when each issue was discussed by the Board or the Interpretations Committee is included in Appendix B, along with a brief summary of each proposed amendment.

This batch of annual improvements was originally scheduled to be published in the third quarter of 2011. However, the Board decided to delay publication because of the importance of completing other projects.

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 revised 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 meetings in September, October and November 2011 the Board assessed each of these improvements against the criteria and in each case concluded that the criteria were met.

Comment period

The standard comment period of Annual Improvements described on the public website is 90 days. The draft of the revised Due Process Handbook makes reference to this shorter comment period for Annual Improvements. This is different from the standard comment period for other exposure drafts of 120 days.

Notwithstanding the information on the website, the staff plans to use of a 120-day comment period for this exposure draft. Little would be gained by shortening the period to 90 days.

Appendix A

Confirmation of Due Process Steps followed in the development of the exposure draft for Annual Improvements to IFRSs 2010-2012 Cycle

The following table sets out the due process steps followed by the IASB in the development of the Annual Improvements to IFRSs 201-2012 Cycle exposure draft.

Step	*Required/ Optional*	*Metrics or evidence*	*Protocol for and evidence provided to DPOC*	*Actions*
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Required	Meetings held to discuss topic. Project Website contains a full description with up-to-date information on the project. Meeting papers posted in a timely fashion.	Members of the IASB discuss with DPOC progress on major projects, in relation to the due process being conducted. DPOC reviews comments from interested parties on IASB due process as appropriate.	The issues were discussed on the basis of agenda papers and approved for inclusion in the 2010-2012 cycle of the Annual Improvements process by the Board in its meetings in September, October and November 2011. Project webpage was updated by the staff after every Interpretations Committee or Board meeting in which issues proposed for inclusion in Annual Improvements were discussed.
Formal consultation with the Trustees and the IFRS Advisory Council	Required	Discussions with the IFRS Advisory Council on topic.	DPOC meets with the Advisory Council to understand perspectives of stakeholders on due process of IASB. IFRS Advisory Council chair invited to Trustees' meetings and meetings of DPOC	Annual Improvements is a standing project of the IASB. A new cycle commences each year. Each cycle of the project is included in the work plan presented to the Advisory Council at each of its meetings. Given the standing nature of the project and the narrow scope of the amendments included, the IASB does not undertake a separate consultation with the Advisory Council. This ED relates to the 2010-2012 cycle.
Analysis of likely effects of the forthcoming IFRS or major amendment, for example, costs or on-going associated costs.	Required	Publication of effect analysis	IASB reviews with DPOC results of effect analysis and how it has considered such findings in proposed IFRS. IASB provides a copy of the effect analysis to the DPOC at the point of standard's publication.	Annual improvements are by definition clarifying or correcting in nature, well-defined and sufficiently narrow in scope that the consequences of the proposed change have been considered. The consequences of the proposed changes is considered for each amendment as part of

Step	*Required/ Optional*	*Metrics or evidence*	*Protocol for and evidence provided to DPOC*	*Actions*
				the Board's discussions, but because of the narrow scope and the expected limited consequences of the proposed amendments, an effects analysis is not prepared.
Consultative groups utilised, if formed	Optional	Number of consultative group meetings, and evidence of substantive involvement in issues Consultative group review of draft exposure draft	DPOC receives report of consultative group activity from IASB.	N/A
Fieldwork undertaken in analysing proposals	Optional	IASB describes approach taken on fieldwork IASB explains why it does not believe fieldwork is warranted, if that is the preferred path Number of field tests	DPOC to review the IASB's explanation if fieldwork is deemed by IASB as not required and have the opportunity to discuss the explanation with IASB DPOC receives a report on fieldwork activities and how findings have been taken into consideration by IASB	N/A
Outreach meetings with a broad range of stakeholders, with special effort for investors	Optional	Number of meetings held and location Evidence of specific targeted efforts for investors	DPOC receives a report on outreach activities and IASB reviews with DPOC outreach plan for the ED and its approach to the optional steps to ensure extensive outreach and public consultation	N/A
Webcasts and podcasts to provide interested parties with high level updates or other useful information about specific projects.	Optional	Number of and participation in webcasts	DPOC receives a report on outreach activities	We will record a podcast of a discussion of the main proposals, which will be available on our public website.
Public discussions with representative groups.	Optional	Number of discussions held	DPOC receives a report on outreach activities	N/A
Online survey to generate evidence in support of or against a particular approach.	Optional	Number and results of surveys	DPOC receives a report on outreach activities	N/A
Regional discussion forums, where possible, with national standard-setters with the IASB.	Optional	Schedule of meetings held in these forums	DPOC receives a report on outreach activities DPOC receives a report on outreach activities	N/A
Round-tables between external participants and members of the IASB.	Optional	Number of meetings held	DPOC receives a report on outreach activities	N/A

Step	*Required/ Optional*	*Metrics or evidence*	*Protocol for and evidence provided to DPOC*	*Actions*
Drafting quality assurance steps are adequate	Required	Translations team included in review process.	DPOC receives summary report on due process steps before an exposure draft is issued.	Formatting changes have been made at the request of the translation team.
Drafting quality assurance steps are adequate	Required	XBRL team included in review process.	DPOC receives summary report on due process steps before an exposure draft is issued.	XBRL team reviewed pre-ballot draft, ballot draft and post-ballot draft.
Drafting quality assurance steps are adequate	Optional	External reviewers used to review drafts and comments collected and considered by the IASB	DPOC receives summary report on due process steps before an exposure draft is issued, including the extent to which external reviewers have been used in the drafting process.	N/A
Drafting quality assurance steps are adequate	Optional	Review draft made available to members of IFASS and comments collected and considered by the IASB	DPOC receives summary report on due process steps before an exposure draft is issued.	N/A
Drafting quality assurance steps are adequate	Optional	Review draft posted on project website.	DPOC receives summary report on due process steps before an exposure draft is issued.	N/A
Due process steps reviewed by IASB	Required	Summary of all due process steps discussed by the Board before an IFRS is issued	DPOC receives summary report on due process steps before an exposure draft is issued.	Review is not necessary because due process follows a set scheme that is applied every year in the same way.
Exposure draft has appropriate comment period.	Required	IASB sets comment period for response. Any period outside the normal comment period requires explanation from IASB to DPOC, and subsequent approval.	DPOC receives notice of any change in comment period length and approval if required.	120 days for the exposure draft; see main body of the memorandum.
Press release to announce publication of exposure draft.	Optional	Press release published Media coverage	DPOC informed of the release of the exposure draft.	Press release prepared and ready to be published with exposure draft
Snapshot document to explain the rationale and basic concepts included in the exposure draft.	Optional	Snapshot posted on IASB Website	DPOC receives a report on outreach activities. Snapshot sent to DPOC members.	N/A
Exposure draft published	Required	Exposure draft posted on IASB website	DPOC informed of the release of the exposure draft.	Exposure draft will be made available on the public website on publication date.

Appendix B

The proposed amendments

The amendments addressed in the ED are set out in the following table with details following.

IFRS	**Subject of amendment**
IFRS 2 *Share-based Payment*	1. Definition of vesting condition
IFRS 3 *Business Combinations*	2. Accounting for contingent consideration in a business combination
IFRS 8 *Operating Segments*	3. Aggregation of operating segments
	4. Reconciliation of the total of the reportable segments' assets to the entity's assets
IFRS 13 *Fair Value Measurement*	5. Short-term receivables and payables
IAS 1 *Presentation of Financial Statements*	6. Current/non-current classification of liabilities
IAS 7 *Statement of Cash Flows*	7. Interest paid that is capitalised
IAS 12 *Income Taxes*	8. Recognition of deferred tax assets for unrealised losses
IAS 16 *Property, Plant and Equipment* IAS 38 *Intangible Assets*	9. Revaluation method—proportionate restatement of accumulated depreciation
IAS 24 *Related Party Disclosures*	10. Key management personnel
IAS 36 *Impairment of Assets*	11. Harmonisation of disclosures for value in use and fair value less costs of disposal

IFRS 2 Share-based Payment

Amendment 1: Definition of vesting condition

The Board identified the need to clarify the definition of a vesting condition in IFRS 2 to ensure the consistent classification of conditions attached to a share-based payment arrangement. Currently, this IFRS does not separately define a performance condition or a service condition, but instead describes both concepts within the definition of vesting conditions.

The Board proposes to clarify the definition of vesting condition by separately defining a performance condition and a service condition in Appendix A of IFRS 2 *Share-based Payment*.

In particular, the Board wants to make clear that:

(a) a performance target may relate either to the performance of the entity as a whole or to some part of the entity, such as a division or an individual employee;

(b) a performance target is defined by reference to the entity's own operations (or activities) or the price (or value) of its equity instruments (including shares and share options);

(c) in order to constitute a performance condition, any performance target needs to have an explicit or implicit service requirement for at least the period during which the performance target is being measured; and

(d) if the employee fails to complete a specified service period, the employee fails to satisfy a service condition, regardless of what the reason for that failure is. The accounting consequence is that the compensation expense would need to be reversed if an employee fails to complete a specified service period.

The Interpretations Committee discussed this issue on January, March, May, July, September and November 2010.

The Board discussed this issue on September 2011.

IFRS 3 Business Combinations

Amendment 2: Accounting for contingent consideration in a business combination

Concerns had been brought to the Board's attention regarding the clarity and consistency of the requirements for accounting for contingent consideration in IFRS 3 *Business Combinations.* The Board proposes the following amendments to IFRS 3 and consequential amendments to IFRS 9 *Financial Instruments* to clarify certain aspects of accounting for contingent consideration in a business combination.

Classification of contingent consideration in a business combination

The Board thinks that an entity will only need to consider whether contingent consideration is a liability or an equity instrument when the contingent consideration is a financial instrument. Consequently, the Board proposes to clarify that contingent consideration is assessed as either a liability or an equity instrument only on the basis of the requirements of IAS 32 *Financial Instruments: Presentation*. Currently, IFRS 3 paragraph 40 refers not only to IAS 32, but also to "other applicable IFRSs" in determining whether contingent consideration is classified as a liability or as an equity instrument. The Board proposes to clarify this by deleting the reference to "other applicable IFRSs".

Subsequent measurement of contingent consideration in a business combination

The Board proposes to clarify that contingent consideration that is not classified as an equity instrument is subsequently measured at fair value, with the corresponding gain or loss being recognised either in profit or loss or other comprehensive income in accordance with IFRS 9. Currently, IFRS 3 paragraph 58 requires subsequent measurement of contingent consideration at fair value, but refers to standards in which fair value is not necessarily the subsequent measurement basis. The Board proposes to clarify this contradiction by:

a) deleting the reference to "IAS 37 or other IFRSs as appropriate"; and
b) amending the classification requirements of IFRS 9 to clarify that contingent consideration that is a financial asset or liability can only be measured at fair value, with changes in fair value being presented in either profit or loss or other comprehensive income depending on the requirements of IFRS 9.

The Interpretations Committee discussed this issue on July 2010.

The Board discussed this issue on October 2011.

IFRS 8 Operating Segments

Amendment 3: Aggregation of operating segments

The Board was made aware of concerns that the basis on which entities applied the aggregation criteria in IFRS 8 to operating segments were not clear. The Board proposes amending paragraph 22 to require entities to disclose those factors that are used to identify the entity's reportable segments when operating segments have been aggregated. This is to supplement the current disclosure requirements in paragraph 22(a).

The Interpretations Committee discussed this issue on July and September 2011.

The Board discussed this issue on November 2011.

Amendment 4: Reconciliation of the total of the reportable segments' assets to the entity's assets

The Board was informed of an inconsistency in the reconciliation disclosure requirements in IFRS 8 relating to an entity's reportable segments'' assets. The Board proposes to amend paragraph 28(c) to clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed, if that amount is regularly provided to the chief operating decision maker, in line with the requirements in paragraph 23.

The Interpretations Committee discussed this issue on May 2011

The Board discussed this issue on September 2011.

IFRS 13 **Fair Value Measurement**

Amendment 5: Short-term receivables and payables

The Board was advised of a lack of clarity about the Board's intention and the consequences of a consequential amendment that the Board made to IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* when it issued IFRS 13 *Fair Value Measurement*.

IFRS 13 deleted paragraph B5.4.12 of IFRS 9 and paragraph AG79 of IAS 39. The proposed amendment to the Basis for Conclusions of IFRS 13 aims to explain the Board's rationale for these amendments. In particular, that the Board proposes to clarify that, when making those amendments to IFRS 9 and IAS 39, it did not intend to remove the ability of an entity to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial. Instead, the Board deleted those paragraphs in IFRS 9 and IAS 39 because IFRS 13 contains guidance for using present value techniques to measure fair value and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* addresses materiality in applying accounting policies.

The Board discussed this issue on October 2011.

IAS 1 **Presentation of Financial Statements**

Amendment 6: Current/non-current classification of liabilities

The Board was made aware of differing views on how the guidance in IAS 1 *Presentation of Financial Statements* relating to the current/non-current classification of a liability that an entity has the right and the intention to refinance or roll-over an existing borrowing. The Board proposes to amend IAS 1 to clarify that a liability is classified as non-current if an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility with the same lender, on the same or similar terms.

The Interpretations Committee discussed this issue on November 2010 and January 2011.

The Board discussed this issue on September 2011.

IAS 7 Statement of Cash Flows

Amendment 7: Interest paid that is capitalised

The Board received a request to clarify the classification in the cash flow statement of interest paid that is capitalised into the cost of property, plant and equipment. The Board proposes to amend paragraphs 16(a) and 33 of IAS 7 *Statement of Cash Flows* and to add paragraph 33A to clarify that the classification of interest that is capitalised shall follow the classification of the underlying asset to which those payments were capitalised.

The Interpretations Committee discussed this issue on May 2011.

The Board discussed this issue on September and November 2011.

IAS 12 Income Taxes

Amendment 8: Recognition of deferred tax assets for unrealised losses

The Board was informed of a lack of clarity concerning the requirements for recognising deferred tax in respect of unrealised losses associated with financial asset investments.

The Board proposes to amend IAS 12 to clarify that:

(a) an entity assesses whether to recognise the tax effect of a deductible temporary difference as a deferred tax asset in combination with other deferred tax assets. If tax law restricts the utilisation of tax losses so that an entity can only deduct the tax losses against income of a specified type (eg if it can deduct capital losses only against capital gains), the entity must still assess a deferred tax asset in combination with other deferred tax assets, but only with deferred tax assets of the appropriate type;

(b) taxable profit against which an entity assesses a deferred tax asset for recognition is the amount before any reversal of deductible temporary differences; and

(c) an action that results only in the reversal of existing deductible temporary differences is not a tax planning opportunity. To qualify as a tax planning opportunity, the action needs to create or increase taxable profit.

The proposed amendments reflect the tentative conclusions that the Board reached when it analysed deferred tax assets arising from unrealised losses on available-for-sale debt instruments. However, the proposed amendments are not limited in scope to those deferred tax assets, but may also be relevant for deferred tax assets resulting from other transactions and events.

The Interpretations Committee discussed this issue on May, July, September and November 2010.

The Board discussed this issue on September 2011.

IAS 16 Property, Plant and Equipment *and* IAS 38 Intangible Assets

Amendment 9: Revaluation method—proportionate restatement of accumulated depreciation

The Board was informed of an inconsistency that arises in certain circumstances in respect of the guidance on the how an asset is restated in the financial statements upon revaluation when the revaluation method is applied in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* .The Board proposes to clarify the requirements for the revaluation method in IAS 16 and IAS 38 to address concerns about the computation of the accumulated depreciation at the date of the revaluation. The proposed changes are that:

(a) the determination of the accumulated depreciation does not depend on the selection of the valuation technique; and

(b) the accumulated depreciation is computed as the difference between the gross and the net carrying amounts. Consequently, when the residual value, the useful life or the depreciation method has been re-estimated before a revaluation, restatement of the accumulated depreciation is not proportionate to the change in the gross carrying amount of the asset.

The Interpretations Committee discussed this issue on May 2011.

The Board discussed this issue on September 2011.

IAS 24 Related Party Disclosures

Amendment 10: Key management personnel

The Board was informed about a lack of clarity and a consequential diversity in practice, concerning what amounts should be disclosed when key management personnel services are outsourced to another entity. The Board proposes to clarify the identification and disclosure requirements for related party transactions that take place when key management personnel services are provided by a management entity that is not otherwise a related party of the reporting entity. The proposed changes are:

(a) the definition of a related party is extended to include management entities;

(b) the disclosure requirements of paragraph 18 are extended to require the separate disclosure of transactions for the provisions of key management personnel services; and

(c) the key management personnel compensation that is provided by a management entity to its own employees is excluded from the disclosure requirements of paragraph 17 to prevent duplication.

The Interpretations Committee discussed this issue on September 2010.

The Board discussed this issue on September and November 2011.

IAS 36 Impairment of Assets

Amendment 11: Harmonisation of disclosures for value in use and fair value less costs of disposal

The Board was advised of inconsistent disclosure requirements in IAS 36 *Impairment of Assets* when similar valuation methodologies are used to determine recoverable amount. The Board proposes to clarify that the disclosure requirements in IAS 36 that are applicable to value in use are also applicable to fair value less costs of disposal when there has been a material impairment loss or impairment reversal in the period.

The Interpretations Committee discussed this issue on November 2010.

The Board discussed this issue on September 2011.