

**To** David Sidwell, Chairman—Due Process Oversight Committee

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**From** Alan Teixeira, Senior Director of Technical Activities  
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**Subject** ***Annual Improvements to IFRSs 2009-2011 Cycle***

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**Date** 15 May 2012

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On 17 May 2012, the Board is planning to finalise its annual improvements publication corresponding to the 2009-2011 cycle.

Normally we would send this type of report to the DPOC when an IFRS has been completed and is being prepared for publication. However, an annual improvements cycle is a series of amendments rather than a discrete amendment and I have kept the DPOC informed in relation to any due process concerns. For example, at the March meeting of the DPOC, paper 6c(iv) reported on a decision of the IASB not to finalise one of the amendments included in the annual improvements exposure draft for the 2009-2011 cycle on the grounds that the amendment was broader than should have been considered for an annual improvement.

Unfortunately, because an annual improvements cycle does not have a single decision point for finalisation of a cycle of improvements, we did not have a natural point for initiating this report to the DPOC. I can only apologise for the relatively short notice in communicating this summary information to the DPOC. The revisions we are making to our due process documentation, particularly the reporting protocols, will address this by ensuring that we provide this information to the DPOC as soon as the balloting process has been completed.

In this memorandum I:

- (a) explain the steps in the due process that we have taken before the publication of the IFRS (see Appendix A) and to confirm that we have complied with the due process requirements;
- (b) give the DPOC a brief summary of the amendments (see Appendix B); and
- (c) confirm to the DPOC that the Board has assessed the issues against the Annual Improvements criteria.

## Due process steps

In Appendix A we have summarised the due process steps that we have taken in finalising *Annual Improvements to IFRSs 2009-2011 Cycle*.

## The amendments

The exposure draft published for comment in June 2011 proposed seven amendments affecting five IFRSs. The Board is finalising six of those amendments. As I communicated to the DPOC in March, the Board decided not to finalise the proposed amendment to IAS 1 *Presentation of Financial Statements* which was intended to align the terminology in IAS 1 with the terminology in the new chapters of the *Conceptual Framework for Financial Reporting (2010)*. A brief summary of each proposed amendment is included in Appendix B.

The Board discussed the seven proposed amendments at its meetings between March 2010 and January 2011. All of these, except the amendment to IAS 1 referred to above, had also been discussed initially by the Interpretations Committee, and the Interpretations Committee's recommendations were communicated to the Board. The dates when each issue was discussed by the Board or the Interpretations Committee are included in Appendix B.

## 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.

When discussing the proposed amendments in its public meetings, the Board assessed each of the improvements against the criteria and in each case concluded that the criteria were met.

### **Comment period**

The proposals were exposed for 120 days.

### **Deliberation of comments received**

The Interpretations Committee analysed the comments received in response to the exposure draft at its meeting on January 2012. The Board discussed the Committee's recommendations at its meeting in February 2012.

## Appendix A

### Confirmation of Due Process Steps followed in the finalisation of Annual Improvements to IFRSs 2009-2011 Cycle

The following table sets out the due process steps followed by the IASB in the development of the Annual Improvements to IFRSs 2009-2011 Cycle.

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Protocol for and evidence provided to DPOC</i>	<i>Actions</i>
<b>Consideration of information gathered during consultation</b>				
IASB posts all comment letters received in relation to the exposure draft on the project pages.	Required if request issued	Letters posted on project pages	IASB reports on progress as part of the quarterly report at Trustee meetings, including summary statistics of respondents.	The staff reviewed the comment letters and provided a comment letter summary giving a general overview of the comments received and the major points raised in the letters. This summary was discussed at the IASB February 2012 meeting. This analysis indicated to the Board that it should proceed with the proposed amendments.
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Required	<p>Number of meetings held to discuss topic.</p> <p>Project website contains a full description with up-to-date information on the project.</p> <p>Meeting papers posted in a timely fashion.</p> <p>Number of meetings with Consultative Group and confirmation that critical issues have been reviewed with Consultative Group</p>	<p>IASB discusses progress on major projects, in relation to the due process being conducted, with DPOC.</p> <p>IASB reviews with DPOC its due process over project life cycle, and how any issues regarding due process have been/are being addressed.</p> <p>DPOC meets with the Advisory Council to understand perspectives of stakeholders.</p> <p>DPOC reviews and responds to comments on due process as appropriate.</p>	<p>The issues were discussed on the basis of agenda papers and approved for inclusion in the 2009-2011 cycle of the Annual Improvements process by the Board in its meeting in February 2012.</p> <p>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.</p>
<b>Finalisation</b>				
Need for re-exposure of standard considered	Required	An analysis of the need to re-expose is considered at a public IASB meeting, using the agreed criteria	IASB discusses its thinking on the issue of re-exposure with the DPOC	The comment letter analysis discussed at the Board meeting in February 2012 meeting indicated us that we should proceed with the proposed amendments

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Protocol for and evidence provided to DPOC</i>	<i>Actions</i>
IASB sets an effective date for standard, considering the need for effective implementation, generally providing at least a year.	Required	Effective date set, with full consideration of implementation challenges	The IASB discusses any proposed shortening of the period for effective application with the DPOC	Effective date for each proposed amendment was set for annual periods beginning on or after 1 January 2013.
Drafting quality assurance steps are adequate	Required	Translations team included in review process.	DPOC receives summary report on due process steps before an IFRS 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 IFRS is issued.	XBRL team reviewed the pre-ballot draft, ballot draft and post-ballot draft
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 IFRS is issued.	Each amendment was re-assessed against the annual improvements criteria that were in force at the time it was finalised.
<b>Publication</b>				
Press release to announce final standard.	Optional	Release announced in timely fashion  Amount of media coverage of release	DPOC receives a copy of the press release and a summary of media coverage.	Press release prepared and ready to be published with final standard.
Podcast to provide interested parties with high level updates or other useful information about the standard.	Optional	Number of podcasts held	DPOC receives a report on outreach activities.	We will record a podcast of a discussion of the amendments, which will be available on our public website.
IFRS published	Required	Official release	DPOC informed of release.	The final standard will be made available on the subscriber website on publication date.

## Appendix B

### *The final amendments*

The amendments addressed in the final document of annual improvements 2009-2011 cycle are set out in the following table. The details of each amendment are given in page 7 onwards.

IFRS	Subject of amendment
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	Repeated application of IFRS 1
	Borrowing costs
IAS 1 <i>Presentation of Financial Statements</i>	Clarification of the requirements for comparative information
IAS 16 <i>Property, Plant and Equipment</i>	Classification of servicing equipment
IAS 32 <i>Financial Instruments: Presentation</i>	Tax effect of distribution to holders of equity instruments
IAS 34 <i>Interim Financial Reporting</i>	Interim financial reporting and segment information for total assets and liabilities

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

### ***Amendment 1: Repeated application of IFRS 1***

The Board identified the need to clarify whether an entity may apply IFRS 1:

- (a) if the entity meets the criteria for applying IFRS 1 and has applied IFRS 1 in a previous reporting period; or
- (b) if the entity meets the criteria for applying IFRS 1 and has applied IFRSs in a previous reporting period when IFRS 1 did not exist.

The Board noted that the scope of IFRS 1 focuses on whether an entity's financial statements are its first IFRS financial statements (a term defined in Appendix A of IFRS 1). If an entity's financial statements meet the definition of 'first IFRS financial statements', the entity is required to apply IFRS 1 in accordance with paragraph 2(a) of IFRS 1. However, use of the term 'first' raises the question whether IFRS 1 can be applied more than once.

The Board decided that an entity that meets the criteria for applying IFRS 1 and that has applied IFRSs in a previous reporting period (regardless of whether it used IFRS 1 or SIC-8 *First-Time Application of IASs*, if either, when previously adopting) may choose to apply IFRS 1 when it re-adopts IFRSs.

The Board also noted that an entity that has never applied IFRSs in the past would continue to be required to apply IFRS 1 in its first IFRS financial statements.

The Board also decided that the entity shall disclose the reason why it stopped applying IFRSs and the reason why it is resuming reporting in accordance with IFRSs. The Board also decided that an entity that does not elect to apply IFRS 1 shall explain the reasons why it has elected to apply IFRSs as if it had never stopped applying IFRSs.

The Interpretations Committee discussed this issue in May 2010 and January 2012.

The Board discussed this issue in September 2010, October 2010 and February 2012.

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

### ***Amendment 2: Borrowing costs***

The Board addressed some concerns that were raised by first-time adopters about the transitional provisions for borrowing costs relating to qualifying assets for which the commencement date for capitalisation was before the date of transition to IFRSs.

Interested parties found it unclear whether borrowing costs capitalised in accordance with previous GAAP should be retained, restated or eliminated in the opening statement of financial position. Interested parties also questioned the accounting, after the date of transition, for borrowing costs that relate to such qualifying assets when these qualifying assets are under construction at the date of transition. They wanted

clarification as to whether the first-time adopter should apply the requirements of IAS 23 *Borrowing Costs* or whether it should continue applying its previous GAAP, even if that previous GAAP is not consistent with IAS 23.

The Board clarified that when the entity chooses to apply the exemption in paragraph D23, the borrowing costs that were capitalised in accordance with previous GAAP should be carried forward in the opening statement of financial position.

In addition, the Board clarified that an entity should account for borrowing costs that are incurred after the date of transition and that relate to qualifying assets under construction at the date of transition in accordance with IAS 23, regardless of whether the entity capitalised or recognised in profit and loss borrowing costs under previous GAAP.

A first-time adopter could also choose to apply the requirements of IAS 23 from a date earlier than the date of transition, in which case it should account for borrowing costs in accordance with IAS 23 on or after the earlier date selected.

The Interpretations Committee discussed this issue in May 2010 and January 2012.

The Board discussed this issue in July 2010 and February 2012.

## **IAS 1 *Presentation of Financial Statements***

### *Amendment 3: Clarification of requirements for comparative information*

The Board addressed a request to clarify the requirements for providing comparative information for:

- (a) the comparative requirements for the opening statement of financial position when an entity changes accounting policies, or makes retrospective restatements or reclassifications, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
- (b) the requirements for providing comparative information when an entity provides financial statements beyond the minimum comparative information requirements.

The Board decided to clarify that the appropriate date for the opening statement of financial position is the beginning of the preceding period. This opening statement of financial position will be provided when the change in an accounting policy, the retrospective restatement or reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period. The Board also decided to specify that related full notes to this opening statement of financial position are not required to be presented.

The Board decided to clarify that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements.

The Board also decided to clarify that, when additional comparative information (that is not required by IFRSs) is provided by an entity, this information should be presented in accordance with IFRSs and the entity should present comparative information in the related notes for that additional information.

These amendments to IAS 1 also generated consequential amendments to IAS 34 *Interim Financial Reporting* and IFRS 1.

The Interpretations Committee discussed this issue in March 2010 and January 2012.

The Board discussed this issue in March 2010, September 2010 and February 2012.

## **IAS 16 *Property, Plant and Equipment***

### *Amendment 4: Classification of servicing equipment*

The Board responded to a request to address a perceived inconsistency in the classification requirements for servicing equipment. The Board decided to clarify that items such as spare parts, stand-by equipment and servicing equipment shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment. If they do not meet this definition they are classified as inventory.

The Interpretations Committee discussed this issue in May 2010 and January 2012.

The Board discussed this issue in July 2010 and February 2012.

## **IAS 32 *Financial Instruments: Presentation***

### *Amendment 5: Tax effect of distribution to holders of equity instruments*

The Board addressed perceived inconsistencies between IAS 12 *Income Taxes* and IAS 32 *Financial Instruments: Presentation* with regard to recognising the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.

The Board noted that the intention of IAS 32 was to follow the requirements in IAS 12 for accounting for income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction. Consequently, the Board decided to clarify this intention in IAS 32.

The Interpretations Committee discussed this issue in March 2010 and January 2012.

The Board discussed this issue in July 2010 and February 2012.

## IAS 34 *Interim Financial Reporting*

### *Amendment 6: Interim financial reporting and segment information for total assets and liabilities*

The Board decided to clarify the requirements on segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in paragraph 23 of IFRS 8 *Operating Segments*.

The Interpretations Committee discussed this issue in March 2010 and January 2012.

The Board discussed this issue in July 2010 and February 2012.

### **Dates when each issue included in the exposure draft of June 2011 was discussed**

		<b>IFRS Interpretations Committee</b>	<b>IASB Board</b>
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	Repeated application of IFRS 1	May 2010—AP 8 January 2012—AP 10A	September 2010—AP 5 October 2010—AP 3A February 2012—AP 12A–12C
	Borrowing costs	May 2010—AP 9 January 2012—AP 10B	July 2010—AP 14A February 2012—AP 12A–12C
IAS 1 <i>Presentation of Financial Statements</i>	Clarification of the requirements for comparative information	March 2010—AP 6D January 2012—AP 10C	March 11, 2010—AP 4** September 2010—AP 3C February 2012—AP 12A–12C
	Consistency with the updated Conceptual Framework*	N/A	January 2011—AP 12 February 2012—AP 12D
IAS 16 <i>Property, Plant and Equipment</i>	Classification of servicing equipment	May 2010—AP 16 January 2012—AP 10D	July 2010—AP 14B February 2012—AP 12A–12C
IAS 32 <i>Financial Instruments: Presentation</i>	Tax effect of distribution to holders of equity instruments	March 2010—AP 2C January 2012—AP 10E	July 2010—AP 14C February 2012—AP 12A–12C
IAS 34 <i>Interim Financial Reporting</i>	Interim financial reporting and segment information for total assets and liabilities	March 2010—AP 7F January 2012—AP 10F	July 2010—AP 14D February 2012—AP 12A–12C

\* This proposed amendment to IAS 1, which was derived from the Conceptual Framework, was deferred and will be considered in a separate project.

\*\* This issue was discussed in the context of the financial statement presentation project.