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**International
Accounting Standards
Board**

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These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: 21 May 2008, London

Project: Annual Improvements Process

Subject: Scope and process for future *Improvements to IFRSs* (Agenda paper 5A)

INTRODUCTION

1. At its February 2008 meeting, the Board redeliberated general comments received on the ED for *Improvements to IFRSs* published in October 2007 (ED). For ease of reference, Appendix A to this agenda paper includes an extracted summary of the general comments on the ED that the Board has redeliberated.
2. In general, nearly all respondents to the ED support the Board's objective of providing a streamlined approach to dealing with miscellaneous non-urgent, necessary amendments that are improvements to IFRSs. However, many question whether the proposed amendments and the process in its current form meet the objective stated in the ED. Given the varying and often conflicting views from

respondents, the Board agreed to reconsider the appropriate scope and process for future improvements.

3. This agenda paper deals with the following issues arising from the general comments received on the ED.
 - a. How should the project scope be defined and should the Board continue to use a single document to process a number of improvements to IFRSs as part of its due process?
 - b. How can future processes for *Improvements to IFRSs* be improved?

STAFF RECOMMENDATION

4. The staff recommends that
 - a. The Board continues to use a single due process document for some amendments after deciding that the issues should be addressed and that the proposals should be included in a collective due process.
 - b. The Board changes the process to increase efficiency and ease of consultation with constituents for proposals included in the single document in the following areas (see paragraphs 28-40 below):
 - i. Website information - description and content
 - ii. Agenda papers for proposals - structure and content
 - iii. Balloting and drafting - timing
 - iv. Exposure draft - format
 - v. Project cycle - timing

STAFF ANALYSIS

Project Scope

5. The staff notes that at its June 2006 meeting with SAC about agenda proposals, the Board discussed several major proposals and one other source of agenda projects. The Board noted that constituents frequently submit requests to add projects to its agenda, most of which are for limited amendments to existing standards, and many are generated by IFRIC.
6. After consulting with constituents about the proposed Technical Corrections policy the year before, the Board concluded that the best approach to those requests was to consider them and include them in a single exposure draft that would be published once each year. At its July 2006 meeting, the Board formally adopted the Annual Improvements Process.
7. The first ED included a large number of amendments that the IFRIC and the Board discussed over a -year addressing issues identified and analysed over the several previous years. These proposals ranged from relatively minor editorial changes to new requirements with varying degrees of complexity and consequences. The first ED did not segregate the editorial changes from others with more significance.
8. Consequently, although many respondents supported the Board's objective and acknowledged the advantage of not having to deal with minor amendments on a piecemeal basis, many also commented on the difficulty of evaluating these proposals during the consultation process. They are concerned that collecting too many proposals in one exposure draft risks issues not receiving adequate attention. Some also commented that if amendments are new requirements or changes to existing practice they should be subject to the same due process as a major amendment of an IFRS.
9. The staff believes that it is unlikely that future exposure drafts will include such a large number of proposals for improvement as the first ED. The staff also notes that an appropriate segregation of proposals would help draw attention to those with implications more than editorial or terminology changes, and ease the consultation process.

10. In addition, the staff believes that questions about scope arise mainly for two reasons:
 - a. The word 'minor' in the project's stated objective is subjectively interpreted, for example, 'minor' could be in terms of word count or accounting effect; and
 - b. The use of a specifically designated due process document to collectively expose and issue these amendments.

What are 'minor' amendments?

11. The staff notes that when the Board formally approved the Annual Improvements Process at its July 2006 meeting, it had already decided to consider each amendment proposal individually and not define 'minor amendment'. This is because comment letters on the proposed technical corrections policy the previous year had highlighted the difficulties in providing a definition that would be sufficiently flexible to distinguish between minor amendments, significant amendments and editorial changes.
12. Many respondents to the ED requested the Board to define the project scope more clearly if it continues to process selected amendments in a single document. The staff notes that respondents to the ED also listed subjective, and often conflicting, factors they believed to be relevant when the Board determines which amendments are appropriate for inclusion. (See Appendix A)
13. The staff does not think that a narrowly defined and universally agreed scope for the improvements project is possible. On the one hand, to properly amend and improve upon an existing IFRS, amendments should not have a word count limit. On the other hand, if the effect is truly minor, some amendments may have limited cost-benefit from exposure, comment analysis, translation efforts, and so on, both for the Board and constituents.

14. Therefore, the scope of the project should not be determined on the basis of how 'minor' is defined, but rather, on the basis of what amendments are appropriate to be included in a single annual exposure draft.

Use of single exposure document in IASB due process

15. The staff has reviewed several documents that discuss the due process applicable to the Board's technical agenda and related standard setting procedures, including paragraphs 28-31 of the IASC Foundation Constitution and section IV and paragraphs 110-112 of the *Due Process Handbook for the IASB*.
16. The staff notes that, of the various forms of due process documents published by the Board, an exposure draft with an adequate basis for conclusions is the only mandatory document required for all IASB technical projects, including major projects. When adding any major new topics, the Board may consider undertaking additional non-mandatory steps, such as publishing a discussion paper.
17. Therefore, generally, the staff believes that amendment proposals to improve existing IFRSs, unless exceptionally broad and significant, would not require additional due process steps beyond the publication of an exposure draft.
18. Because improving IFRSs is a continuous process, the Board will continue to receive requests from the IFRIC or constituents or to identify itself issues that need to be addressed. Some may require major changes or have more implications than others.
19. The staff does not think that constituents want a standalone exposure draft for every amendment that the Board concludes is a necessary improvement, particularly if the changes proposed are limited and involve amending only a few words, sentences or even a paragraph or two.
20. After the Board formally adopted the Annual Improvements Process in July 2006, this project has become a standing technical agenda project. Therefore, the Board

- decides what issues are appropriate to include without requiring a formal agenda proposal. The Board evaluates whether an amendment is necessary to address the identified issue in this project in the same way it evaluates all other technical agenda decisions.
21. The staff also notes that the *Due Process Handbook* already identifies many factors that the Board considers when setting its technical agenda. Although not an exhaustive list, and in no particular order, some of the identified factors are pervasiveness of issue, diversity of practice, increasing convergence, feasibility of a sound solution, cost/benefit considerations.
 22. These factors help bring some level of consistency to agenda decisions. However, it is impossible to evaluate them in precisely the same way and to the same extent in every instance. Dependent on the issues' nature, application and implementation problems, timing and urgency, the Board may decide to include or exclude a technical issue, and similarly, to provide a separate due process and focused resources for that issue instead of including it in a collective due process.
 23. Essentially, the staff thinks that two questions are relevant when considering the scope of this project:
 - a. Is the proposed amendment necessary?
 - b. Should the proposed amendment be exposed individually or included in a single exposure draft with others?
 24. Once the Board has concluded that a proposed amendment is appropriate to address the identified issue, publishing the proposal as a standalone document or with a collection of others is administrative and is a matter of judgment.
 25. Therefore, the staff recommends that the Board continues to use a single due process document for some amendments after deciding that the issues should be addressed and that, dependent on their nature, the proposals should be included in a collective process.

26. **Does the Board agree with the staff's recommendation?**

Proposed process changes to future *Improvements to IFRSs*

27. Given the comments received on the ED and the analysis above, the staff also recommends that the Board changes the process to increase the efficiency and ease of consultation with constituents for proposals included in a single exposure draft in the areas discussed in the following paragraphs.

Website summary - description and content

28. The staff proposes that the website summary for the Annual Improvements Process be revised to:
- a. Eliminate the word 'minor' because it misleads constituents about the potential effect of an amendment published as part of a single exposure draft;
 - b. Explain that the decision to publish any proposal as a standalone document or with a collection of others is only administrative. Although it involves judgment, it has no effect on compliance with the Board's required due process;
 - c. Include the final text (i.e., an approved post-ballot draft) of proposed amendments as soon as each is discussed and approved by the Board individually throughout the year, as described below; and
 - d. Reflect the new project cycle described below.
29. The staff believes that the revised website summary will help bridge the gap between the Board's objectives and constituents' expectations of this project.

Agenda papers for proposals - structure and content

30. The staff proposes that, in addition to components of staff papers already described by the *Due Process Handbook*, the agenda papers for future proposed improvements should include the following for the Board's discussion:
- a. A brief description of why the amendment should be addressed at this time;
 - b. Identification of any consequential amendments to other IFRSs, existing implementation guidance and existing bases for conclusions;
 - c. Specified transition provision and effective date (retrospective, modified retrospective, or prospective), taking into consideration any linked standard's transition provision and effective date; and
 - d. Proposed drafting in an appendix of the following:
 - i. Proposed amendment to the standard;
 - ii. Consequential amendments to other IFRSs, existing implementation guidance, and existing bases for conclusions;
 - iii. Basis for conclusion that adequately explains how the issue arises, the Board's rationale for why an amendment is necessary, why the Board's original intent has changed (if applicable), and why the proposal is an improvement; and
 - iv. Any specific questions on which the Board should solicit comments that are unique for the proposed amendment as described below.
31. The staff believes that including such information provides an indication of how narrow or broad the issue is and whether it is appropriate to be exposed separately or as part of a collective document. Complete drafting also expedites the balloting process and allows a timely posting of final text to the website as described below.

Balloting and drafting - timing

32. The staff proposes that, throughout the year, the Board adopts the following balloting practice:
 - a. As soon as the Board discussion and approval takes place, the staff member responsible for the technical analysis of each issue should proceed to ballot the individual proposed amendment including all the material listed in paragraph 30d expeditiously; and
 - b. As soon as a final text (post-ballot draft) of the individual proposed amendment is available, including any alternative views from dissenting Board members, it should be posted to the public website.
33. At the end of the project cycle, the Board would collate all previously balloted final text in one exposure draft for publication.
34. The staff believes that the new balloting practice is more efficient and allows any sweep issues to be identified sooner. Constituents will also be able to review the final text of proposed amendments as soon as possible throughout the year. Given this, the staff believes that it is reasonable to not extend the current 90-day comment period.
35. Although the Board extends a formal invitation to comment when the exposure draft is published, the staff proposes that constituents not be precluded from providing feedback on individual proposed amendments at any time after final text is available on the public website. If any feedback received in advance indicates that a separate due process may be more appropriate, the Board may then decide not to include the issue in the collective ED.

Exposure draft - format

36. The staff also proposes that future exposure drafts adopt the following changes:

- a. Segregate necessary but non-substantive proposals in Part II of the document, similar to *Improvements to IFRSs* issued in May 2008;
 - b. Include three questions for all amendments in the ED as one invitation to comment, as follows:
 - i. Do you agree with the Board's proposals to address the issues as described in the exposure draft? If not, why?
 - ii. Do you agree with the Board's proposals to amend the IFRSs as described in the exposure draft? If not, why?
 - iii. Do you agree with the proposed transition provisions and effective date for each issue as described in the exposure draft? If not, why?
 - c. Include any specific questions on which the Board would like to solicit comments that are unique for an individual amendment in its respective introduction section – these should be limited for an amendment included in this ED.
37. The staff believes that adopting these format changes to the exposure draft would help draw attention to proposals with implications more than editorial or terminology changes, and ease the consultation process.

Project cycle - timing

38. The staff proposes that the Board should:
- a. Aim to provide at least a nine-month period between the final amendments' publication date and effective date for constituents to prepare for adoption - the first cycle provided a six-month period;
 - b. Allow sufficient time for comment letter analysis - the first cycle provided less than four weeks between the comment letter due date and the posting deadline for the Board's first redeliberations.

39. Given the above, the staff proposes the following estimated timetable for the next annual project cycle. This should be revised as appropriate for future cycles:

Date	Tasks
June 2008	Last Board meeting to discuss/approve new proposals
July 2008	Last Board meeting to discuss sweep issues, if any
August 2008	Publication of exposure draft (90-day comment period)
November 2008	Comment letter due date
January 2009	First Board meeting for redeliberations
1 April, 2009	Publication of final amendments
1 January, 2010	Effective date (unless otherwise indicated)

40. As already mentioned in paragraph 9, the staff believes that it is unlikely that future exposures drafts will include as large a number of improvement proposals as the first ED. The staff also thinks that if the Board adopts the changes to the project's processes recommended in paragraphs 28-40, an annual project cycle may still be appropriate.

41. **Does the Board agree with the recommendations in paragraphs 28-40?**

42. **If not, what would the Board like the staff to consider as alternatives?**

Appendix A

Extracted summary of general comments on the ED (Agenda Paper 4B – redeliberated in February 2008)

Summary of general comments

5. Nearly all respondents support the Board’s objective of providing a streamlined approach to dealing with miscellaneous non-urgent, necessary but minor amendments that are improvements to IFRSs. However, many question whether the proposed amendments and the process in its current form meet the objective as stated in the ED. The main themes of concerns raised from general comments received are:
 - a. scope
 - b. early adoption and transitional provisions
 - c. consequential amendments
 - d. due process and procedures
 - e. other issues.
6. These comments are discussed in more detail below.

Scope

7. Many respondents observe that the ED included a large number of amendments, and comment that the amendments range from minor editorial changes to new requirements that are not the correction of inconsistencies or technical errors. Many also point out that while some amendments are narrow or detailed changes that border on rules and exceptions from principles, others are complex or broader issues that are currently not addressed in any IFRSs.
8. Respondents expressed varying levels of concern on whether 22 of the 41 proposed amendments should be included in the scope of the AIP. The four that

attracted the least support and the most objection to their inclusion in the improvements project are:

- a. Statement of compliance with IFRS (IAS 1) - 66 respondents, of which 42 did not support, and 23 object to inclusion
 - b. Definition of a derivative (IAS 39) - 61 respondents, of which 33 did not support, and 28 object to inclusion
 - c. Advertising and promotional activities (IAS 38) - 57 respondents, of which 25 did not support, and 21 object to inclusion
 - d. Classification of leases of land and buildings (IAS 17) - 56 respondents, of which 15 did not support, and 14 object to inclusion
9. The preliminary numerical analysis above has not considered respondents who support the Board's intention in principle but express concerns about such matters as ambiguity or the creation of inconsistencies with other IFRSs. Many respondents also state in general that some of the proposed amendments are beyond the scope of the project. However, they did not identify the amendments specifically either because of unspecified reasons or because they supported the end results. The staff will bring separate analysis to the Board for these issues in accordance with the project plan, which is discussed later in this agenda paper.
10. While respondents acknowledge the advantage of not having to deal with minor amendments on a piecemeal basis, they are also concerned that collecting too many proposed amendments to too many IFRSs in one ED risks issues not receiving adequate attention.
11. Some respondents also acknowledge that assessing whether a specific amendment is minor is somewhat subjective. This is evident from the comment letters received because, in general, respondents have provided a wide range of views about what should or should not be in the scope of this process.
12. For example, while 'improvements' include those that rectify inconsistent requirements and terminology, some of the changes are viewed as being minor

- editorial changes that need not be exposed for comment. On the other hand, ‘improvements’ can also include amendments that clarify existing requirements or confirm the Board’s original intention. If some of these ‘other changes’ will affect existing practice, respondents also question whether they, along with amendments that are ‘new requirements’, should not be subject to the same due process as a major amendment of an IFRS.
13. In addition, respondents are mindful that eliminating all imperfections in IFRSs requires resources. They caution that numerous minor amendments to address these shortcomings will obscure the need for more fundamental revisions and that an amendment that appears to be innocuous could have wider, unintended, consequences.
 14. Many suggest that the Board, based on experience from this first set of annual improvements, should reconsider whether the right balance is struck between ‘editorial changes’, ‘improvements’, and ‘other changes’, and whether each of these types of changes is given the appropriate due process for comments. Otherwise, some respondents suggest that the costs to both the Board and its constituents in developing, reviewing, endorsing, translating and promulgating the changes to be implemented may outweigh the perceived benefit of improvement.
 15. Subject to the Board’s reconsideration of the appropriate scope for amendments, most respondents support the practice of bringing forward groups of sufficiently important but relatively minor amendments in a single exposure draft.
 16. The staff will present a separate agenda paper with a full analysis and recommendation about this issue for future improvements after the Board has deliberated and issued the final amendments from this first process.

Early adoption and transitional provisions

17. Nearly all respondents who comment on these issues disagree with the early adoption and transitional provisions proposed in the ED. The Board considered and decided on these issues at its meeting in July 2007.

18. At that meeting, the Board discussed whether to address specific early adoption and transition provisions amendment by amendment; or to take a simpler approach of adopting all amendments from annual improvements at the same time, and if early adopting, adopting all together. The Board decided on the simpler approach.
19. Therefore, the ED has no specific transition provisions, requiring retrospective application of all changes. The ED also proposed that early adoption of any specific amendments should be conditional on the early adoption of:
 - a. all the proposed amendments from this improvements project; and
 - b. IAS 1 *Presentation of Financial Statements* (as revised in 2007).
20. Respondents give various reasons for their disagreement with the proposed requirements, as summarised below.
21. Respondents point out that when amendments are made to individual IFRSs outside the annual improvements process, even if several IFRSs are amended during the same period, early adoption and transition provisions are selected case by case. They see the ED as a collection of separate issues bundled together for efficiency and believe that these relevant requirements should not take a more restrictive approach.
22. They also comment that not all the amendments are changes in accounting policy as described in IAS 8. Some of the amendments are meant to 'clarify' wording or confirm the Board's original intentions. In these circumstances, there has not been a change in the IFRS and an effective date is, it is argued, redundant. Some even argue that the amendments warrant immediate adoption rather than deferral to the proposed effective date of 1 January 2009, and that early adoption should not be precluded.
23. Most respondents say that the ED and its Basis for Conclusions lack sufficient link between the majority of the proposed amendments and IAS 1 (revised 2007). They feel that, because the proposed amendments vary in complexity and some

- will be more difficult or burdensome than others for entities to adopt, precluding early adoption of some changes until entities can address all other changes goes against the objective of encouraging high quality, consistent application of IFRSs.
24. Similarly, in the absence of specific transition provisions, the default implementation guidance in paragraph 19(b) of IAS 8 requires retrospective application for all these changes. Although retrospective application may seem appropriate for amendments that clarify the Board's original intentions, some of the amended IFRSs require prospective application in their original transition provisions. On the other hand, adding a new requirement or changing a previous one could either be a 'clarification' or a 'change' from the Board's original intentions. Again, retrospective application may not always be appropriate for new requirements.
 25. Many respondents also point out circumstances when it is burdensome or impracticable to apply the amendments retrospectively. These circumstances include, but are not limited to, reviewing all leasing and derivative contracts for classification or applying a different fair value measurement definition.
 26. Generally, respondents argue that early adoption and transition provisions should be considered standard by standard, and to the extent not linked to IAS 1 or other standards, early adoption should not be linked.
 27. When the staff present the full analysis and recommendations for specific proposed amendments, we will also evaluate the specific transitional provisions as appropriate for the Board's deliberation.

Consequential amendments

28. Respondents point out that some of the proposed amendments will need to be reflected in amendments to the documents accompanying the IFRSs, such as the Introduction, Basis for Conclusions and Implementation Guidance. For example, the proposed restructuring of IFRS 1 is intended to improve that IFRS and would also result in the restructuring of the accompanying documents. However, the respondents note that the ED omitted these consequential amendments.

29. They express concerns that because some of the proposals have a significant impact, the effect on all IFRS literature should be fully explained. Although they acknowledge that accompanying documents are not an integral part of IFRSs, many emphasise that these relevant consequential amendments support a full understanding of implications from the changes.
30. These respondents particularly note the importance of a robust discussion of reasons for the Board to change a previously reached conclusion that was not an oversight or why the IFRS needs clarification. For completeness and transparency, they recommend that future EDs should include amendments to the relevant Basis for Conclusions and Implementation Guidance, if any.

Due process and procedures

31. The staff have highlighted earlier the widespread concerns about including in a single ED a large number of amendments with varying degrees of complexity and consequences, and whether the current due process is appropriate for the different types of 'improvements'. Notwithstanding perceived efficiency, respondents hope the Board will be willing to reconsider the process so that the new fast track process is not perceived as a means of changing standards by the back door.
32. Some respondents suggest that the Board should structure future exposure drafts to highlight those amendments that have more implications. Or, the Board may consider sorting the amendments into categories and highlight the amendments that introduce new requirements to assist constituents in considering the large number of small amendments proposed in the ED.
33. Many respondents support the discussion of proposed amendments over an extended period before an ED is published. They also support the public posting of the near-final drafts of the proposed amendments before the ED is published. However, some thought the 90-day comment period was insufficient, given the large volume of amendments and the significant implications of some of them.
34. They also note that the Board made significant changes to the near-final drafts posted on the website for some of the proposed amendments. Consequently, it is

difficult to consider the near-final drafts when they may be altered before the publication of the ED.

35. Some respondents suggest that the Board should give an earlier opportunity to comment, either when *IASB Update* is published or when ballot drafts are posted over the course of the year. They believe that this could indicate whether it is appropriate to include the issue in the annual improvement process or whether it should be subject to a more extensive due process.
36. The staff will present a separate agenda paper with a full analysis and recommendation about this issue for future improvements projects after the Board has deliberated and issued the final amendments from this first project.

Other issues

37. Many respondents identify various issues that the Board should consider that are not addressed in the ED. Those issues that directly affect the proposed amendments will be incorporated in future agenda papers for the Board's redeliberation.
38. The staff will evaluate the other issues raised, and will, as appropriate, bring them forward when the Board considers the process for future improvements projects.
39. **Are there additional issues that the Board identified in its review of the comment letters that it would like the staff to consider?**