Project: ***Annual Improvements* Project – 2008-2010 cycle**

Topic: **Finalisation of *Improvements to IFRS***

Introduction

1. At its meetings in February and March 2010, the Board tentatively decided to finalise 11 amendments out of the 15 proposed amendments that were included in the exposure draft of proposed *Improvements to IFRSs* (ED) in August 2009. The remaining 4 issues are proposed for removal from *Annual Improvements* without finalisation as discussed further in paragraph 13.

2. At its meeting in February 2010, as part of the session on the *Rate-regulated Activities* project, the Board decided to include within *Improvements to IFRSs* to be published in April 2010 an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* regarding the use of deemed cost for operations subject to rate regulation.

Purpose of this paper

3. The objective of this paper is to:

   (a) present to the Board additional clarifications on the proposed amendment to IFRS 1 regarding the use of deemed cost for operations subject to rate regulation,

   (b) present to the Board the package of *Improvements to IFRSs* for publication in April 2010 (see agenda paper 1A), and

   (c) ask the Board to formally assess the proposed improvements against the current published criteria for *Annual Improvements*.

IFRS 1 – Use of deemed cost for operations subject to rate regulation

4. This issue was originally included in the exposure draft *Additional Exemptions for First-time Adopters* published in September 2008 (IFRS 1 Exemptions ED). Comments were received on that exposure draft and the staff provided a summary analysis of this issue (and other issues) in Agenda Paper 18 of the May 2009 Board meeting. At that time, the decision was made to not finalise this proposed amendment to IFRS 1, but rather to include it in the comprehensive *Rate-regulated Activities* (RRA) project to ensure consistency with the comprehensive project.

5. At the February 2010 Board meeting the Board deliberated the summary comment letter analysis of the RRA project and the comments received on the exposure draft that was published in July 2009 (RRA ED). (See Agenda Paper 7 to the February 2010 Board meeting). Given the revised timing of the RRA project, the Board tentatively decided to finalise this issue and include it in the omnibus *Improvements to IFRSs* to be issued in April 2010.

6. The following items are changes to the previously exposed proposed amendments (either the exposure draft published in September 2008 or July 2009) to address comments received from constituents:

   (a) The other deemed cost exemptions in IFRS 1 (use of fair value as deemed cost – paragraph 30, use of deemed cost for investments in subsidiaries, jointly controlled entities and associates – paragraph 31, and use of deemed cost for oil and gas assets – paragraph 31A) require disclosure about their use. The staff recommends similar disclosure when this exemption is used and have included this in proposed paragraph 31B.

   (b) The use of this exemption will result in the entity reporting the deemed cost of the asset as if it had acquired an asset with the same remaining service potential at the date of transition to IFRSs. Consistent with paragraph IG 9 of IFRS 1, there will be no accumulated depreciation or amortisation reported for the asset concerned. Some constituents had requested that the exemption specify certain differences between previous GAAP and IFRSs that would be covered by this exemption, for example differences in depreciation methods and rates or differences in the calculation of capitalised borrowing costs. The use of this exemption is not conditional on the nature of the differences between previous GAAP and IFRSs, but on the fact that the asset was subject to rate regulation and the carrying amount was determined in accordance with previous GAAP. Consequently, a list of specific allowed differences (for example, capitalisation and depreciation/amortisation differences between previous GAAP and IFRSs) is not necessary. The staff has included this rationale in proposed paragraph BC47K.

(c) Some constituents requested clarification on the interaction between this exemption and the exemption for borrowing costs (IFRS 1.D23). For the reasons explained in paragraph 6(b) of this paper, an entity that applies this exemption will not need to apply the exemption for borrowing costs. This includes self-constructed assets that are 'straddling assets' (where construction has commenced prior to the effective date of IAS 23R and are in-process) at the date of transition. The staff has included this rationale in proposed paragraph BC47K.

***Assessment of proposed improvements against the current published criteria for* Annual Improvements**

7. The Board is aware of the concerns raised by some constituents regarding the criteria used for inclusion of issues in *Annual Improvements*.

8. In response to concerns raised, the Trustees have asked the Board to consider fully whether there are sufficient, publicly available criteria to judge the appropriate scope of *Annual Improvements*. Revised criteria arising from this review will be used for the next cycle of *Annual Improvements*.

9. The criteria used for judging whether a proposed amendment in the current cycle meets the criteria for inclusion in *Annual Improvements* is that the matter must be a "**non-urgent but necessary amendment to IFRSs**".

10. The specific *Annual Improvements* issues in the current cycle about which certain scope concerns were raised, and the outcome of those issues, are identified in Appendix A.

11. The amendments proposed for finalisation are included in the *Improvements to IFRSs* pre-ballot draft (agenda paper 1A).

12. In the staff's opinion, the amendments proposed for finalisation clarify previous concerns expressed by constituents. They do not propose to change existing principles or introduce new accounting principles. The staff thinks that all of these amendments meet the criteria for inclusion in *Annual Improvements*.

Question – Formal assessment of *Annual Improvements* to be finalised
Does the Board agree that the proposed amendments included in the pre-ballot draft (agenda paper 1A) meet the criteria for inclusion in the *Improvements to IFRSs* for publication in April 2010[1]?

[1] The proposed amendment to IAS 8 is recommended for finalisation on condition that the Qualitative Characteristics chapter of the revised Conceptual Framework is issued before *Improvements to IFRSs* is issued.

Proposed amendments withdrawn from the 2008-2010* Annual Improvements *cycle

13. As part of the process for reviewing comments, the Board decided that some of the proposed amendments should not be finalised in the current cycle of *Annual Improvements*. As a result, the Board decided to withdraw these issues from the current cycle. The table below lists the proposed amendments that were removed without finalisation from *Annual Improvements*:

<table>
<tr><th>IFRS</th><th>Subject of amendment</th></tr>
<tr><td>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</td><td>Application of IFRS 5 to loss of significant influence over an associate or a jointly controlled entity</td></tr>
<tr><td>IAS 27 Consolidated and Separate Financial Statements</td><td>Impairment of investments in associates in the separate financial statements of the investor</td></tr>
<tr><td>IAS 28 Investments in Associates</td><td>Partial use of fair value for measurement of associates</td></tr>
<tr><td rowspan="2">IAS 39 Financial Instruments: Recognition and Measurement:

[From Improvements to IFRS exposure draft published in August 2008]</td><td>Bifurcation of embedded foreign currency derivative</td></tr>
<tr><td>Application of the fair value option</td></tr>
<tr><td>IAS 40 Investment Property</td><td>Change from fair value model to cost model[2]</td></tr>
</table>

14. The table in paragraph 13 is presented for completeness purposes only. No action is requested from the Board in respect of these issues.

[2] At the 18 March 2010 meeting, the Board asked the IFRIC to reconsider this issue as part of the next *Annual Improvements* cycle in the light of the comments received.

Appendix A – Scope concerns for specific *Annual Improvements* proposals

Proposed amendment	Constituent concern	IASB response
IAS 27 Clarification of which standard applies (IAS 36 or IAS 39) when testing an investment in subsidiary, associate or joint venture for impairment in the investor's separate financial statements	Substantial modification of current accounting practice Unforeseen consequence of proposed amendment: narrowing the accounting choice available in circumstance where investor applies fair value accounting rather than cost in separate financial statements. The proposed amendment requires classification as At Fair Value Through Profit or Loss (AFVTPL) rather than a choice of AFVTPL and Available For Sale (AFS).	**Proposed amendment has been withdrawn**. Decision to withdraw made at IASB meeting on 10 February 2010.
IAS 8 Change in terminology used to describe the qualitative characteristics when selecting accounting policies. The proposed amendment introduces terminology from the new conceptual framework.	Introduction of new principles that are neither defined within the current Framework nor within the current standards New concepts such as "economic phenomenon" are proposed to be included in IAS 8. Concern that publication of this amendment is "a defacto reduction in the comment period, constituents only being able to evaluate the consequences of the text when the final text is at their disposal".	Amendment confirmed for **finalisation without modification**, but **conditional** on the relevant chapter of the new Conceptual Framework being issued **before** *Improvements to IFRSs* issued. This was discussed at the 18 March IASB meeting. There was a mixed response from constituents. 35 responses in favour, of which 12 also made comments. 20 responses against. Main concern raised was the use of terms that come from literature that is not yet published, and hence is not authoritative. (the relevant chapter of the Framework is expected to be published in April).

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Appendix A

Proposed amendment	**Constituent concern**	**IASB response**
IFRS 3 Measurement of Non-Controlling Interests (NCI): clarification of which components of NCI qualify for the accounting policy choice of share of net assets vs fair value.	Introduction of new principles that are neither defined within the current Framework nor within the current standards New concepts of "pro rata share of net assets in the event of liquidation" are proposed to be included in IFRS 3 paragraph 19. Concern that this amendment introduces a new concept "without even providing an explanation as to the practical meaning of such a concept. Such introduction is thereby likely to lead to more practical interpretation difficulties".	This amendment was confirmed for **finalisation (with limited modification**). This amendment was discussed at the 10 February 2010 meeting. Illustrative Examples have been added. The staff had originally recommended deleting the phrase "pro rata share of the entity's net assets in the event of liquidation". The IFRIC disagreed and insisted that the phrase be included, but changing the term "pro rata" to "proportionate". The staff notes that the term "pro rata share of the entity's net assets in the event of the entity's liquidation" is used in IAS 32 paragraph 16A to determine when particular financial liabilities should be classified as equity instruments.
IFRS 3 Clarification of transition requirements for contingent consideration balances arising from business combinations that occurred prior to the application of IFRS 3 (revised 2008).	Practical application difficulties arising from the way that proposed amendments are drafted The proposed amendment cross referred to IFRS 3 (issued 2004) which is "an obsolete text". This raises "concerns for instance in jurisdictions such as Europe where, when IFRS 3 revised becomes effective, the old text will no longer be part of legislation and any reference to a legislation that no longer exists causes practical issues".	This amendment was confirmed for **finalisation (with substantial modification**). This was discussed at the 10 February 2010 meeting. The modification made is to delete the cross reference to IFRS 3 (issued 2004) and instead to **add the relevant wording from IFRS 3 (2004) into the text of IFRS 3 (2008)**. This avoids the need to cross refer to "obsolete text".