IASB Meeting | Agenda reference **3B**

Staff Paper | Date **10 February 2010**

Project	**Annual Improvements Project – 2008-2010 cycle**
Topic	**Proposed wording for final amendments – changes tracked to exposure draft**

Introduction

1. This paper sets out the proposed wording for annual improvements project issues discussed and confirmed so far by the IFRIC for inclusion in the final *Improvements to IFRSs* that will be published in April 2010. It also includes, where applicable, the further amendments recommended by the IFRIC.
2. This paper presumes all changes proposed in the exposure draft published in August 2009 were accepted and **only shows incremental changes newly recommended by the IFRIC** based on an analysis of the comment letters received. Incremental new text is **double underlined** and incremental deleted text is **double struck** through.
3. The issues raised in the comment letters are discussed in Agenda Paper 3.

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

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

Paragraph 39~~B~~C is amended.

Effective date

39~~B~~C *Improvements to IFRSs* issued in April 2010 [added paragraph 27A and amended paragraphs 27, 32 and] amended paragraph D8. An entity shall apply those amendments for annual periods beginning on or after 1 January 2011. ~~If an entity had first applied IFRSs in an earlier period, the entity is permitted to apply the amendment to paragraph D8 in the first annual period after the amendment is effective as if it had been available in that earlier period.~~ Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact. Entities that applied IFRS 1 in a previous period are permitted to apply the amendment retrospectively in the first annual period after the amendment is effective. An entity applying paragraph D8 retrospectively shall disclose that fact.

Appendix D

In Appendix D paragraph D8 is amended.

Fair value or revaluation as deemed cost

D8 A first-time adopter may have established a deemed cost in accordance with previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a privatisation or initial public offering. ~~If the measurement date is before the end of the first IFRS reporting period, the first-time adopter may use such event-driven fair value measurements as deemed cost for IFRSs at the date of that measurement. If the measurement date is after the first-time adopter's date of transition to IFRSs, the entity may elect a deemed cost at the date of transition that meets the criteria in paragraphs D5–D7. The event-driven fair value measurement within the entity's first IFRS reporting period is recognised as deemed cost when the event occurs.~~

(a) If the measurement date is *at or before* the date of transition to IFRSs, the entity may use such event-driven fair value measurements as deemed cost for IFRSs at the date of that measurement.

(b) If the measurement date is *after* the date of transition to IFRSs, but during the period covered by the first IFRS financial statements, the event-driven fair value measurements may be used as deemed cost when the event occurs. An entity shall recognise the resulting adjustments directly in retained earnings (or if appropriate, another category of equity) at the measurement date. At the date of transition to IFRSs, the entity shall either establish the deemed cost by applying the criteria in paragraphs D5-D7 or measure assets and liabilities in accordance with the other guidance in this IFRS.

Basis for Conclusions on amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

This Basis for Conclusions accompanies, but is not part of, the amendments.

Paragraphs BC4-BC6 are amended.

~~Revaluation basis as deemed cost~~ Fair value or revaluation as deemed cost

BC~~4~~46A In *Improvements to IFRSs*, issued in April 2010,~~As part of its annual improvements project in 2009,~~ the Board reconsidered the scope of paragraph D8. ~~At that time, paragraph D8 was applicable to events such as a privatisation or initial public offering that took place before the date of transition to IFRSs, but not if the event was later. The Board concluded that its reasons for granting the exemption in paragraph D8 were equally valid for such events that occurred after the date of transition to IFRSs but during the periods covered by the first-time adopter's first IFRS financial statements. Therefore, the Board proposes to amend paragraph D8 to reflect that conclusion.~~ In some jurisdictions, an entity that becomes a first-time adopter of IFRSs through a privatisation or initial public offering (IPO) process, is required by local laws to revalue its assets and liabilities to fair value, and also to treat the revalued amounts as deemed cost. Therefore, from its first year of IFRS adoption onwards, the new entity would have to prepare two sets of figures for its assets and liabilities – one to comply with its selected policies under IFRSs, and one to comply with the local 'deemed cost' laws. The Board considered this unduly onerous. Therefore, the Board amended paragraph D8 to allow the entity to recognise the event-driven fair value measurement as deemed cost when the event occurs, provided that this is during the periods covered by its first IFRS financial statements. An entity that adopted IFRSs and applied IFRS 1 in a previous period is permitted to apply the amendment retrospectively, provided the measurement date is within the period covered by its first IFRS financial statements.

~~BC5 When deliberating comparative presentation for the proposed amendment, one option the Board considered requires an entity to establish the deemed cost on the date of transition to IFRSs using the revaluation amounts subsequently obtained on the date of measurement, adjusted to exclude any depreciation, amortisation or impairment between the date of transition to IFRSs and the date of that measurement. That would result in the balances on the date of measurement approximating the revaluation amounts. Although some believe that this presentation gives better comparability throughout the first IFRS reporting period, others object to it on the basis that making such adjustments requires hindsight and the computed carrying amounts on the date of transition are neither the revalued assets' historical costs nor their fair values on that date.~~

BC~~6~~46B ~~Therefore, the Board decided to require an entity to establish the deemed cost as of the event-driven fair value measurement date and, for the periods before that date, present historical costs or other amounts already permitted by IFRS 1. The Board notes that this proposed presentation overcomes the use of hindsight. It also presents supportable carrying amounts for such assets on the date of transition that are broadly consistent with the existing requirements of IFRS 1 and with the principle of the transition. Because any significant adjustments related to an event that triggers such a revaluation would already be highlighted in the first IFRS financial statements and disclosures, the proposed presentation clearly identifies the effects of any significant difference in depreciation or amortisation between the periods before and after the date of measurement.~~ The Board also decided to require the entity to present historical costs or other amounts already permitted by IFRS 1 for the periods before that date. In this regard, the Board considered an approach where an entity could 'work back' to the deemed cost on the date of transition, using the revaluation amounts obtained on measurement date, adjusted to exclude any depreciation, amortisation or impairment between the two dates. Although some believed that this presentation would have given better comparability

throughout the first IFRS reporting period, the Board rejected it because making such adjustments would require hindsight and the computed carrying amounts on the date of transition to IFRSs are neither the revalued assets' historical costs nor their fair values on that date.

Amendments to IFRS 3 *Business Combinations* (as revised in 2008)

Paragraphs 19 and 64A are amended and paragraphs 64C and 65A to 65E are added.

The acquisition method

Measurement principle

19 For each business combination, the acquirer shall measure at the acquisition date components of ~~any~~ non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either: ~~at fair value or other measurement basis as required by IFRSs, except for the components of non-controlling interest that are present ownership instruments and entitle their holders to a pro rata share of the entity's net assets in the event of liquidation. The acquirer shall measure those components of non-controlling interest either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets~~

(a) fair value; or

(b) the present ownership instruments' proportionate share in the recognised amounts of the identifiable net assets.

All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs.

Effective date and transition

Effective date

64B~~A~~ *Improvements to IFRSs* issued in April 2010 amended paragraph 19[, the heading before paragraph 30 and paragraphs 30 and B56 and added a new heading after paragraph B62 and paragraphs B62A, B62B, C3A, C7A and C13A]. An entity shall apply those amendments for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

64C~~B~~ Paragraphs 65A-65E were added by *Improvements to IFRSs* issued in April 2010. An entity shall apply those amendments for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact. The amendments shall be applied to contingent consideration balances arising from business combinations with an acquisition date prior to the application of IFRS 3 (as revised in 2008).

Transition

65A Contingent consideration balances arising from business combinations whose acquisition dates preceded the application of this IFRS shall not be adjusted upon application of this IFRS. After the application of this IFRS, paragraphs 65B-65E shall be applied in the subsequent accounting of those balances. Paragraphs 65B-65E shall not apply to the accounting for contingent consideration balances arising from business combinations with acquisition dates on or after the date the entity applies this IFRS.

65B When a business combination[1] agreement provides for an adjustment to the cost of the combination contingent on future events, the acquirer shall include the amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

65C A business combination agreement may allow for adjustments to the cost of the combination that are contingent on one or more future events. The adjustment might, for example, be contingent on a specified level of profit being maintained or achieved in future periods, or on the market price of the instruments issued being maintained. It is usually possible to estimate the amount of any such adjustment at the time of initially accounting for the combination without impairing the reliability of the information, even though some uncertainty exists. If the future events do not occur or the estimate needs to be revised, the cost of the business combination shall be adjusted accordingly.

65D However, when a business combination agreement provides for such an adjustment, that adjustment is not included in the cost of the combination at the time of initially accounting for the combination if it either is not probable or cannot be measured reliably. If that adjustment subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination.

65E In some circumstances, the acquirer may be required to make a subsequent payment to the seller as compensation for a reduction in the value of the assets given, equity instruments issued or liabilities incurred or assumed by the acquirer in exchange for control of the acquiree. This is the case, for example, when the acquirer guarantees the market price of equity or debt instruments issued as part of the cost of the business combination and is required to issue additional equity or debt instruments to restore the originally determined cost. In such cases, no increase in the cost of the business combination is recognised. In the case of equity instruments, the fair value of the additional payment is offset by an equal reduction in the value attributed to the instruments initially issued. In the case of debt instruments, the additional payment is regarded as a reduction in the premium or an increase in the discount on the initial issue.

Appendix to amendments to IFRS 3
Amendments to other IFRSs

IFRS 7 *Financial Instruments: Disclosures*

Paragraph 44B is amended and paragraph 44K~~H~~ is added.

Effective date and transition

44B IFRS 3 (as revised in 2008) deleted paragraph 3(c). An entity shall apply that amendment for annual periods beginning on or after 1 July 2009. If an entity applies IFRS 3 (revised 2008) for an earlier period, the amendment shall also be applied for that earlier period. The amendment does not apply to contingent consideration that arose from a business combination whose acquisition date preceded the application of IFRS 3 (revised 2008). Such consideration is accounted for in accordance with the requirements in paragraphs ~~32–35 of IFRS 3 (as issued in 2004)~~ 65A-65E of IFRS 3 (revised 2008).

44K~~H~~ Paragraph 44B was amended by *Improvements to IFRSs* issued in April 2010. An entity shall apply that amendment for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies the amendment before 1 July 2010 it shall disclose that fact.

[1] In paragraphs 65A-65E business combination refers exclusively to business combinations whose acquisition date preceded the application of IFRS 3 (revised 2008).

IAS 32 *Financial Instruments: Presentation*

Paragraph 97B is amended and paragraph 97~~E~~G is added.

Effective date and transition

97B IFRS 3 (as revised in 2008) deleted paragraph 4(c). An entity shall apply that amendment for annual periods beginning on or after 1 July 2009. If an entity applies IFRS 3 (revised 2008) for an earlier period, the amendment shall also be applied for that earlier period. The amendment does not apply to contingent consideration that arose from a business combination whose acquisition date preceded the application of IFRS 3 (revised 2008). Such consideration is accounted for in accordance with the requirements in paragraphs ~~32–35 of IFRS 3 (as issued in 2004)~~ 65A-65E of IFRS 3 (revised 2008).

97~~E~~G Paragraph 97B was amended by *Improvements to IFRSs* issued in April 2010. An entity shall apply that amendment for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies this amendment before 1 July 2010 it shall disclose that fact.

IAS 39 *Financial Instruments: Recognition and Measurement*

Paragraph 103D is amended and paragraph 103~~N~~L is added.

Effective date and transition

103D IFRS 3 (as revised in 2008) deleted paragraph 2(f). An entity shall apply that amendment for annual periods beginning on or after 1 July 2009. If an entity applies IFRS 3 (revised 2008) for an earlier period, the amendment shall also be applied for that earlier period. The amendment does not apply to contingent consideration that arose from a business combination whose acquisition date preceded the application of IFRS 3 (revised 2008). Such consideration is accounted for in accordance with the requirements in paragraphs ~~32–35 of IFRS 3 (as issued in 2004)~~ 65A-65E of IFRS 3 (revised 2008).

103~~N~~L Paragraph 103D was amended by *Improvements to IFRSs* issued in April 2010. An entity shall apply that amendment for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies the amendment before 1 July 2010 it shall disclose that fact.

Basis for Conclusions on amendments to IFRS 3 *Business Combinations* (as revised in 2008)

Paragraphs BC1 and BC3 to BC5 are amended and headings are added.

Subsequent improvements to IFRS 3

BC~~1~~221A In *Improvements to IFRSs*, issued in April 2010, t~~T~~he Board ~~proposes~~ limited the measurement choice to non-controlling interests that are present ownership instruments and entitle their holders to a ~~pro rata~~ proportionate share of the entity's net assets in the event of liquidation. The acquirer should measure other components of non-controlling interest at the acquisition date fair value ~~or other measurement bases as~~, unless another measurement basis is required by IFRSs. For example, a share-based payment transaction that is classified as equity ~~shall~~ should be measured in accordance with IFRS 2 *Share-based Payment* ~~and the equity component of a convertible instrument shall be measured in accordance with IAS 32 *Financial Instruments: Presentation*~~. The

Board observed that without this amendment, if the acquirer chooses to measure non-controlling interest ~~NCI~~ at its proportionate share of the acquiree's identifiable net assets, the acquirer might measure some equity instruments at nil. In the Board's view, this would result in not recognising economic interests that other parties have in the acquiree. Therefore, the Board ~~proposes~~ ~~to~~ amended IFRS 3 to limit when a measurement choice is available ~~the choice of measuring non-controlling interest at its proportionate share of the acquiree's identifiable net assets to those components of non-controlling interests that are present ownership instruments that entitle their holders to a pro rata share of the entity's net assets in the event of liquidation~~.

Effective date and transition

Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS

BC~~3~~434A Paragraph 3(c) of IFRS 7 *Financial Instruments: Disclosures*, paragraph 4(c) of IAS 32 *Financial Instruments: Presentation* and paragraph 2(f) of IAS 39 *Financial Instruments: Recognition and Measurement* exempted contingent consideration arrangements from the scope of IAS 39. To allow the acquirer to account for contingent consideration as required by the revised IFRS 3 ~~*Business Combinations*~~, the Board propose~~s~~d to delete those scope exceptions in the second phase of its project on business combinations.

BC~~4~~434B Some interpreted the deletion of the scope exception ~~meant~~ as meaning that IAS 39 would apply to all contingent consideration, including contingent consideration from business combinations with an acquisition date earlier than the application date of the revised IFRS 3. The Board noted that this interpretation is inconsistent with the requirement in paragraph 65 of IFRS 3 that assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the revised IFRS are not adjusted upon application of the revised IFRS.

BC~~5~~434C Therefore, the Board ~~proposes to amend paragraph 44B of IFRS 7, paragraph 97B of IAS 32 and paragraph 103D of IAS 39~~ decided to reproduce paragraphs 32-35 of IFRS 3 (as issued in 2004) as paragraphs 65B-65E in IFRS 3 (revised 2008), to add paragraph 65A and to amend paragraph 44B of IFRS 7, paragraph 97B of IAS 32 and paragraph 103D of IAS 39. The Board did this to clarify that the requirements in IAS 39 do not apply to contingent consideration that arose from a business combination whose acquisition date preceded the application of the revised IFRS 3 and to provide guidance on how to account for such balances~~. Rather, an entity accounts for such contingent consideration in accordance with the requirements in paragraphs 32–35 of IFRS 3 (as issued in 2004)~~. The Board does not believe that the proposed amendments will affect the convergence of IFRS 3 (~~as~~ revised in 2008) and SFAS 141(R).

Amendment to IFRS 7 *Financial Instruments: Disclosures*

Paragraph 3~~3~~2A is added. Paragraph 33A is deleted. Paragraphs 34 and 36–38 are amended. Paragraphs 33 and 35 are not proposed for amendment, but are included for ease of reference. Paragraph 44~~H~~K is added.

32A Providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an entity's exposure to risks.

Qualitative disclosures

33 For each type of risk arising from financial instruments, an entity shall disclose:

(a) the exposures to risk and how they arise;

(b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and

(c) any changes in (a) or (b) from the previous period.

~~33A The disclosures provided in accordance with paragraph 33 shall support and enhance the disclosures required by paragraphs 34 and 35.~~

Quantitative disclosures

34 For each type of risk arising from financial instruments, an entity shall disclose:

(a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in IAS 24 *Related Party Disclosures*), for example the entity's board of directors or chief executive officer.

(b) the disclosures required by paragraphs 36–42, to the extent not provided in accordance with (a).

(c) concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b).

35 If the quantitative data disclosed as at the end of the reporting period are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.

Credit risk

36 An entity shall disclose by class of financial instrument:

(a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (eg netting agreements that do not qualify for offset in accordance with IAS 32); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.

(b) a description and the financial effect of collateral held as security and other credit enhancements (eg a ~~description~~ quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the

maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument).

(c) information about the credit quality of financial assets that are neither *past due* nor impaired.

(d) [deleted].

37 An entity shall disclose by class of financial asset:

(a) an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired; and

(b) an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired.

(c) [deleted].

Collateral and other credit enhancements obtained

38 When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (eg guarantees), and such assets meet the recognition criteria in other Standards, an entity shall disclose for such assets held at the reporting date:

(a) the nature and carrying amount of the assets; and

(b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Effective date and transition

44~~H~~K *Improvements to IFRSs* issued in April 2010 added paragraph 3~~3~~2A and amended paragraphs 34 and 36–38. An entity shall apply the amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

Basis for Conclusions on amendment to IFRS 7 *Financial Instruments: Disclosures*

This Basis for Conclusions accompanies, but is not part of, the amendment.

BC1 to BC6 are amended and headings are added.

Interaction between qualitative and quantitative disclosures (paragraph 32A)

BC~~1~~42A As part of *Improvements to IFRSs* issued in April 2010, the Board ~~proposes~~ decided to emphasise the interaction between qualitative and quantitative disclosures about the nature and extent of risks arising from financial instruments. The Board noted that providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The Board concluded that an explicit emphasis on the interaction between qualitative and quantitative

disclosures will contribute to disclosure of information in a way that better enables users to evaluate an entity's exposure.

BC~~2~~47A As part of *Improvements to IFRSs* issued in April 2010, the Board ~~proposes~~ decided to remove the reference to materiality in paragraph 34(b) of IFRS 7. The Board noted that the reference could imply that disclosures in IFRS 7 are required even if those disclosures are not material, which was not the Board's intention.

Credit risk (paragraphs 36–38, B9 and B10)

Maximum exposure to credit risk (paragraphs 36(a), B9 and B10)

BC~~3~~49A As part of *Improvements to IFRSs* issued in April 2010, the Board ~~proposes~~ decided to clarify that the disclosure requirement in paragraph 36(a) applies only to financial assets whose carrying amounts do not show the reporting entity's maximum exposure to credit risk. The Board noted that such an approach is consistent with the approach taken in paragraph 29(a), which states that disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value. Moreover, the Board concluded that the requirement might be duplicative for assets that are presented in the statement of financial position because the carrying amount of these assets often represents the maximum exposure to credit risk. In the Board's view, the disclosure requirement should focus on the entity's exposure to credit risk that is not already reflected in the statement of financial position.

Financial assets with renegotiated terms (paragraph 36(d))

BC~~4~~54A As part of *Improvements to IFRSs* issued in April 2010, the Board ~~proposes~~ decided to delete the requirement in paragraph 36(d) to disclose the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated. The Board considered the difficulty in identifying financial assets whose terms have been renegotiated to avoid becoming past due or impaired (rather than for other commercial reasons). The Board noted that the ~~current~~ original requirement was unclear about whether the requirement applies only to financial assets that were renegotiated in the current reporting period or whether past negotiations of those assets should be considered. Moreover, the Board was informed that commercial terms of loans are often renegotiated regularly for reasons that are not related to impairment. In practice it is difficult, especially for a large portfolio of loans, to ascertain which loans were renegotiated to avoid becoming past due or impaired. ~~Hence, the Board proposes to delete the disclosure requirement in paragraph 36(d).~~

Financial assets that are either past due or impaired (paragraph 37)

BC~~5~~55A As part of *Improvements to IFRSs* issued in April 2010, the Board considered the usefulness of disclosure of the fair value of collateral and other credit enhancements required in paragraph 37(c). The Board considered that within a class of assets some might be over-collateralised while others might be under-collateralised. Hence, aggregate disclosure of the fair value might be misleading. Therefore, the Board decided to remove the requirement in paragraph 37(c) to disclose the fair value of collateral and other credit enhancements. However, the Board believes that information on the financial effect of such assets is useful to users. Hence, the Board decided to require in paragraph 36(b) a description and the financial effect of collateral held as security and other credit enhancements ~~in paragraph 36(b)~~.

Collateral and other credit enhancements obtained (paragraph 38)

BC656A As part of *Improvements to IFRSs* issued in April 2010, the Board proposes to clarifyied that paragraph 38 requires entities to disclose need only the amount of foreclosed collateral held at the reporting date in paragraph 38. The Board noted that this is consistent with the objective in IFRS 7 to disclose information that enables users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.

Amendment to guidance on implementing IFRS 7 *Financial Instruments: Disclosures*

A heading and paragraphs IG3 and IG4 are deleted.

Amendment to IAS 28 *Investments in Associates*

Paragraphs 1A and 41E are added.

Scope

1A **~~If~~ An entity first determines in accordance with paragraphs 6-10 of this Standard ~~that~~ whether it has significant influence ~~in~~ over an ~~associate~~ investee~~, the entity shall apply this Standard~~. ~~If a portion of the investment in the associate qualifies for the scope exclusion in accordance with paragraph 1, the entity shall apply the scope exclusion only to the portion to which the scope exclusion applies.~~ If the entity has significant influence, it shall apply this Standard. Then, if a portion of the investment in the associate qualifies for the scope exclusion in accordance with paragraph 1, the entity shall apply the exclusion only to that portion. The remaining portion of the investment in the associate shall be accounted for in accordance with this Standard.**

Effective date and transition

41E Paragraph 1A was added by *Improvements to IFRSs* issued in April 2010. An entity shall apply the amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

Basis for Conclusions on amendment to IAS 28 *Investments in Associates*

Paragraphs BC1-BC3 are amended.

This Basis for Conclusions accompanies, but is not part of, the amendment.

Scope exclusion: investments in associates held by venture capital organisations, mutual funds, unit trusts and similar entities

BC~~1~~6A The Board received a request to clarify whether different measurement bases can be applied to portions of an investment in an associate when part of the investment is designated at initial recognition as at fair value through profit or loss in accordance with the scope ~~exemption~~ exclusion in paragraph 1 of ~~the~~ IAS 28. Paragraph 6 of IAS 28 is clear that the determination of significant influence includes both direct and indirect holdings. ~~However, IAS 28 is silent on whether both those investments included in the scope of IAS 28 and those investments excluded from the scope of IAS 28 should be considered in establishing the existence of significant influence and the group's share in the associate.~~

BC~~2~~6B The Board noted that two views exist in current practice in respect of measurement. The first view identifies all direct and indirect interests held in the associate by either the parent or any of its subsidiaries and then applies IAS 28 to the entire investment in the associate. In accordance with this view, there is only one investment in the associate and it should be accounted for as one unit. If only

part not all of the investment qualifies for the scope exclusion in paragraph 1 of IAS 28, the entire investment would be accounted for in accordance with IAS 28. The second view identifies all direct and indirect interests held in the associate, but then requires use of the scope criteria in IAS 28 to determine the proper accounting treatment for different portions of the investment, consistently with the business purposes for which those portions may be held.

BC36C The Board agreed with the second view and concluded that once an entity determines it has significant influence it shall apply the provisions of IAS 28. The Board therefore amended IAS 28 as part of *Improvements to IFRSs* issued in April 2010.

Amendment to IAS 34 *Interim Financial Reporting*

In the rubric, 'paragraphs 1–48' is amended to 'paragraphs 1–49'. A heading and paragraph 15 are amended (new text is underlined and deleted text is struck through). Paragraphs 15A, 15B and 15C are added. Paragraphs 16–18 are deleted. A heading and paragraph 16A are added. Paragraph 49 is added. Paragraphs 15B and 16A were previously paragraph 17 and 16, respectively, and have been marked up solely to show changes from the pre-existing text.

Content of an interim financial report

Significant events and transactions

15 An entity shall include in its interim report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions should update the ~~equivalent~~ relevant information presented in the most recent annual report.

15A A user of an entity's interim financial report will have access to the most recent annual financial report of that entity. Therefore, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual report.

15B The types of events ~~or~~ and transactions for which disclosures would be required if they are significant are set out below. The list is not exhaustive.

(a) the write-down of inventories to net realisable value and the reversal of such a write-down;

(b) recognition of a loss from the impairment of financial assets, property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;

(c) the reversal of any provisions for the costs of restructuring;

(d) acquisitions and disposals of items of property, plant and equipment;

(e) commitments for the purchase of property, plant and equipment;

(f) litigation settlements;

(g) corrections of prior period errors;

(h) ~~significant~~ changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, notwithstanding whether th~~e~~ose assets or liabilities are recognised at fair value or amortised cost;

(i) any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period;

(j) related party transactions;

(k) ~~significant~~ transfers between levels of the fair value hierarchy in the measurement of the fair value of financial instruments;

(l) changes in the classification of financial assets as a result of a change in the purpose or use of those assets; and

(m) changes in contingent liabilities or contingent assets.

[contains text from pre-existing paragraph 17 marked up for amendments]

15C Individual IFRSs provide guidance regarding disclosure requirements for many of the items listed in paragraph 15B. When an event or transaction is significant to an understanding of the changes in an entity's financial position or performance since the last annual financial period, its interim financial report should provide an explanation of and an update to the relevant information included in the financial statements of the last annual financial period.

16-18 [Deleted]

Other ~~minimum~~ disclosures

16A ~~Notwithstanding the requirements in paragraphs 15–15C,~~ In addition to the disclosures of significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information~~, as a minimum~~, in the notes to its interim financial statements, if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis. ~~However, the entity shall also disclose any events or transactions that are necessary to an understanding of the current interim period~~:

(a) a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change.

(b) explanatory comments about the seasonality or cyclicality of interim operations.~~;~~

(c) the nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidence.

(d) the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.

(e) issues, repurchases and repayments of debt and equity securities.

(f) dividends paid (aggregate or per share) separately for ordinary shares and other shares.

(g) the following segment information (disclosure of segment information is required in an entity's interim financial report only if IFRS 8 *Operating Segments* requires that entity to disclose segment information in its annual financial statements):

(i) revenues from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker.

(ii) intersegment revenues, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker.

(iii) a measure of segment profit or loss.

(iv) total assets for which there has been a material change from the amount disclosed in the last annual financial statements.

(v) a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss.

(vi) a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items shall be separately identified and described in that reconciliation.

(h) **events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.**

(i) **the effect of changes in the composition of the entity during the interim period, including business combinations, obtaining or losing control of subsidiaries and long term investments, restructurings, and discontinued operations. In the case of business combinations, the entity shall disclose the information required by IFRS 3 *Business Combinations*.**

[contains text from pre-existing paragraph 16 marked up for amendments]

Effective date and transition

49 A heading and paragraph 15 were amended, paragraphs 15A–15C and 16A were added and paragraphs 16–18 were deleted by *Improvements to IFRSs* issued in April 2010. An entity shall apply the amendments for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

Addition of Basis for Conclusions on IAS 34 *Interim Financial Reporting*

Paragraph BC1 is amended and paragraphs BC1 to BC4 are added.

Basis for Conclusions on IAS 34 *Interim Financial Reporting*

This Basis for Conclusions accompanies, but is not part of, IAS 34.

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in amending IAS 34 *Interim Financial Reporting* as part of *Improvements to IFRSs* issued in April 2010.

BC2 IAS 34 was developed by the International Accounting Standards Committee (IASC) in 1998 and did not include a Basis for Conclusions. This Basis refers to the amendment of paragraph 15, the insertion of paragraphs 15A-15C, the deletion of paragraphs 16-18 and the insertion of paragraphs 16A and 49. Those changes aim to emphasise the disclosures principles in IAS 34 and to add further guidance to illustrate how to apply these principles.

Significant events and transactions

BC~~1~~3 IAS 34 was issued by the Board's predecessor body, the ~~International Accounting Standards Committee (~~IASC~~)~~, in 1998. In the light of recent improvements to disclosure requirements, many users of financial statements asked the Board to consider whether particular disclosures required by IFRS 7 *Financial Instruments: Disclosures* for annual financial statements should also be required in interim financial statements. The Board noted that IAS 34 sets out disclosure principles to determine what information should be disclosed in an interim financial report. The Board concluded that amending IAS 34 to place greater emphasis on th~~e~~ose principles and the inclusion of additional

examples relating to more recent disclosure requirements, ie fair value measurements, would improve interim financial reporting.

BC4 As part of the amendments made to IAS 34 in the *Improvements to IFRSs* issued in April 2010, the Board also deleted paragraph 18 of IAS 34. The Board made these changes because paragraph 18 repeats paragraph 10 of IAS 34 and because the Board's intention is to emphasise those disclosures that are required rather than those that are not required.