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

Topic **Overview and summary of analysis of comments received**

Introduction

1. The Board published its exposure draft of proposed *Improvements to IFRSs* (ED) in August 2009. It proposed a total of 15 amendments to 11 IFRSs.

2. The comment period ended on 24 November 2009. The Board received 74 comment letters, more than 20% of which arrived after the requested deadline.

Purpose of this paper

3. The objective of this paper is:

   (a) to present to the Board the IFRIC's recommendations on the *Annual Improvements* project issues it discussed at its meeting in March 2010 including:

      (i) a summary of changes made in response to comments received on the issues that the IFRIC recommends be finalised,

      (ii) the proposed wording for the final amendments as set out in agenda papers 12A and 12B, and

      (iii) a list of the issues that the IFRIC recommended be removed from the *Annual Improvements* project and the reasons why, and

   (b) to obtain a Board decision on the finalisation of these issues.

4. The staff does not feel a need to propose any modifications to the timetable approved by the Board at its meeting on 10 February 2010. The project is currently on time for issuing *Improvements to IFRSs* in April 2010.

Background

First batch of issues – January 2010 IFRIC meeting and February 2010 Board meeting

5. As of January 2010, the IFRIC became involved with the *Annual Improvements* project. At its meeting in January 2010, the IFRIC confirmed six of the proposed amendments and recommended them for finalisation to the Board. They also recommended the issue on IAS 27 *Consolidated and Separate Financial Statements* – Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor - be formally removed from the *Annual Improvements* project.

6. At its meeting on 10 February 2010, the Board tentatively decided to finalise the six improvements and to remove from the *Annual Improvements* project, without finalisation, the issue on IAS 27. Matters discussed at the February 2010 Board meeting are set out in agenda papers 3, 3A and 3B that can be found on the public website[1].

7. Of these six improvements, and following the public Board session on *Joint Arrangements* held on the 19 February 2010, the Board tentatively decided to withdraw, without finalisation, the amendment to IAS 28 *Investments in Associates* relating to the partial use of fair value for measurement of associates. An update of this decision is available in agenda paper 5H presented at the March 2010 IFRIC meeting and can be found on the public website[2].

[1] http://www.iasb.org/NR/rdonlyres/353D13C3-2D80-49C6-9844-C2F8D0A756E0/0/AIP100210b03obs.pdf
[2] http://www.iasb.org/Meetings/IFRIC+Meeting+March+2010.htm

Second batch of issues – March 2010 IFRIC meeting

8. The IFRIC deliberated at its meeting in March 2010 comments received on the eight remaining issues from the *Improvements to IFRSs* exposure draft published in August 2009.

9. At this meeting, the IFRIC also deliberated illustrative examples relating to the amendment for IFRS 3 *Business Combinations* – Measurement of non controlling interests. The Board had previously tentatively decided to finalise this *Annual Improvement* at its meeting on the 10 February 2010, subject to the review of the illustrative examples.

10. The IFRIC was asked to decide on the course of action for each of these issues. They recommended six of the proposed amendments and the illustrative examples on IFRS 3 be finalised and two of the proposed amendments be removed, without finalisation, from *Annual Improvements*. Details of the proposed amendments discussed at the IFRIC meeting in March 2010 are set out below.

Amendments recommended for finalisation

11. The staff provides below a list of the issues the IFRIC recommends for finalisation with some or no modifications in response to comments received. The main proposed changes are detailed in the paragraphs that follow when appropriate.

Issue		Summary of proposed changes from the ED as a result of deliberations of the IFRIC at the meeting in March 2010
IFRS 1(*)	IFRS 1 is unclear as to whether a first-time adopter is exempt from the requirements of IAS 8 for the interim and annual periods presented in its first IFRS financial statements in circumstances when changes are made to an entity's accounting policies or to the IFRS 1 exemptions applied between the entity's first IFRS interim financial report and the fist IFRS annual financial statements. The amendment clarifies that a first-time adopter that changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 *Interim Financial Reporting* should explain those changes and update the reconciliations to IFRS from previous GAAP of its equity and total comprehensive income.	Clarification to differentiate paragraph 32(c) from paragraph 27A. Clarification of paragraph 27A about disclosure required and which period it is referring to.
IFRS 3	Concerns were raised about the lack of explicit guidance in the revised IFRS 3 with respect to share-based payment awards of the acquiree that the acquirer chooses to replace, even though they either are unaffected by the business combination or for which vesting is accelerated as a consequence of the business combination. The amendment clarifies the accounting for such replaced and un-replaced share-based payments.	Re-order and simplification of the guidance of how to determine when an acquirer is obliged to replace share-based payment transactions of the acquiree. Clarification of the measurement date in paragraph 30 of IFRS 3R. Clarification of the transition provisions. Presentation in the Basis for Conclusions of the rationale for the distinction in accounting for replaced share-based payment transactions of the acquiree depending on whether they expire or not as a result of the business combination.
IFRS 3	At the 10 February 2010 Board meeting, the Board tentatively confirmed an amendment to paragraph 19 of IFRS 3 (revised 2008) that clarifies that the choice for measuring the non-controlling interest in the acquiree applies only to 'components of non-controlling interests that are present ownership instruments and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation'. Other	The illustrative examples were not originally part of the ED.

Issue		Summary of proposed changes from the ED as a result of deliberations of the IFRIC at the meeting in March 2010
	present ownership instruments that are classified as non-controlling interests should be measured 'at fair value, unless another measurement basis is required by IFRSs'. This agenda paper includes new illustrative examples to illustrate the application of the amended paragraph 19 of IFRS 3.	
IAS 1(*)	The Board was asked to clarify its intention in paragraph 106(d) to require reconciliation between the carrying amount (beginning and ending balances) for each component of other comprehensive income. The amendment confirms that an entity shall present the components of changes in equity either in the statement of changes in equity or in the notes to the financial statements.	Editorial changes. Keep the current wording of paragraph 107.
IAS 8	The Board and the US Financial Accounting Standards Board are jointly developing a new conceptual framework on financial reporting. IAS 8 provides guidance to preparers of financial reports in developing and applying accounting policies when there are no specifically applicable IFRSs. That guidance is based on the qualitative characteristics in the *Framework*. Because this guidance is essential to the application of IAS 8, the paragraphs that refer to the qualitative characteristics were proposed for amendment to use the new terminology.	No change proposed to ED wording. The IFRIC noted its recommendation to the Board is subject to the relevant chapters of the forthcoming conceptual framework being issued before finalisation and issue of *Improvements to IFRSs*.
IAS 27(*)	The consequential amendment to IAS 21, IAS 28 and IAS 31 resulting from the 2008 amendment of IAS 27 is silent on transition requirements. This amendment requires prospective application.	No change proposed to ED wording.
IFRIC 13(*)	Paragraph AG2 of IFRIC 13 could be interpreted to mean that the fair value of redemption awards is equal to the fair value of award credits because the term ‘fair value’ is used to refer to both the value of the award credits and the value of the awards for which the credits could be redeemed. The amendment clarifies of the meaning of the term ‘fair value’.	Clarify that the fair value of awards in paragraph AG2(a) reflects, for example, the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale. Amendment of IE1 to extend the example to: ✓ reflect the amount of discounts or incentives that should be taken into account, and ✓ possible redemption in goods rather than only in cash.

Issues with minor editorial comments

12. Of the issues listed in the table above, four issues - marked with (*) - were considered 'minor issues' for the purpose of the discussion at the March 2010 IFRIC meeting. These issues were classified as such because they received broad support by respondents with either no or minor editorial comments being submitted. The IFRIC recommended finalisation of these issues.

13. Editorial changes for these issues are reflected in agenda papers 12A and 12B as shown in the table below:

	Agenda paper 12A	**Agenda paper 12B**
IFRS 1	Pages 2-4	Pages 2-4
IAS 1	Pages 10-11	Pages 10-11
IAS 27	Pages 14-15	Pages 14-16
IFRIC 13	Pages 16-18	Pages 17-19

14. The IFRIC noted that the term 'fair value' used in IFRIC 13 *Customer Loyalty Programmes*, which is proposed to be retained by this amendment, is subject to review within the *Fair Value Measurement* project. The issue will be considered in agenda paper 3C supp[3] 'Other scoping considerations – supplement' at the March 2010 Board meeting.

15. These minor issues discussed at the March 2010 IFRIC meeting were all included in agenda paper 5A that can be found on the public website[4].

Question 1 – Minor issues amendments to be finalised
Does the Board agree with the IFRIC's recommendations on finalising the proposed amendments listed above under the heading of "minor issues", including the proposed wording changes?

[3] http://www.iasb.org/NR/rdonlyres/5083F91A-F27A-469F-8573-91EBB86E43B0/0/FVM0310b03Csuppobs.pdf

[4] http://www.iasb.org/Meetings/IFRIC+Meeting+March+2010.htm

Other issues

IFRS 3* Business Combinations - *Un-replaced and voluntarily replaced share-based payment transactions

16. The proposed final wording is presented in agenda papers 12A pages 5-7 and 12B pages 5-7.

17. The IFRIC confirmed the proposed amendment to clarify the accounting for replaced and un-replaced share-based payments in connection with a business combination.

18. This issue was first discussed at the July 2009 IASB Board meeting; it was set out in agenda paper 3D that can be found on the public website[5].

19. IFRS 3 (revised 2008) contains requirements for share-based payment transactions of the acquiree that:

    (a) the acquirer is obliged to replace, or

    (b) expire as a consequence of the business combination.

20. However, IFRS 3 is currently silent on the accounting for un-replaced or voluntarily replaced share-based payment transactions.

21. The Board proposed to clarify in the ED that:

    (a) voluntarily replaced share-based payment transactions that do not expire as a consequence of a business combination, and

    (b) un-replaced share-based payment transactions,

    are accounted for in the same manner as share-based payment transactions of the acquiree that the acquirer is obliged to replace, ie the market-based measure should be allocated between consideration transferred and post-combination costs.

22. In addition, the Board proposed to align the terminology in IFRS 3 with that of IFRS 2 *Share-based Payment*. Therefore, the Board proposed replacing the term

[5] http://www.iasb.org/Meetings/IASB+Board+Meeting+21+July+2009.htm

'share-based payment award' in paragraph 30 of IFRS 3 (revised 2008) with 'share-based payment transaction'.

23. In response to comments received, the IFRIC recommends the following proposed modifications:

    (a) to re-order and simplify the guidance in paragraph B56 of how to determine when an acquirer is obliged to replace share-based payment transactions of the acquiree,

    (b) to clarify in the heading to paragraphs B62A and B62B that their requirements only apply to equity-settled share-based payment transactions,

    (c) to incorporate the same ratio in B62B as the one described in B58,

    (d) to clarify application of the transition provisions,

    (e) to replace 'fair value' with 'market-based measure',

    (f) to reflect in the Basis for Conclusions the rationale for the distinction in accounting for replaced share-based payment transactions of the acquiree depending on whether they expire or not as a result of the business combination, and

    (g) to clarify in paragraph 30 that the measurement date of share-based payment transactions in a business combination is the acquisition date.

24. The rationale for the above proposed modifications is set out in agenda paper 5B presented at the March 2010 IFRIC meeting that can be found on the public website[6].

25. The IFRIC also discussed three additional issues – also presented at the IFRIC meeting in March 2010 in agenda paper 5B - with which they tentatively decided not to proceed:

    (a) request for guidance for modifications, rather than replacement, made to the share-based payment transactions of the acquiree,

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[6] http://www.iasb.org/Meetings/IFRIC+Meeting+March+2010.htm

(b) request for guidance on the subsequent accounting treatment for un-replaced share-based payment transactions, and

(c) cases where the replacement value is lower than the original market-based measure allocated to pre-combination.

Question 2 – Amendment to be finalised
Does the Board agree with the IFRIC's recommendations on finalising this IFRS 3 proposed amendment, including the proposed wording changes, as described above?

IFRS 3* Business Combinations *- Measurement of non-controlling interests – Illustrative examples

26. The proposed final wording is presented in agenda papers 12A pages 8-9 and 12B pages 8-9.

27. In January 2010 the IFRIC confirmed a proposed amendment to paragraph 19 of IFRS 3 (revised 2008) to clarify that the choice for measuring the non-controlling interest in the acquiree applies only to 'components of non-controlling interests that are present ownership instruments and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation'. Other present ownership instruments that are classified as non-controlling interests should be measured 'at fair value, unless another measurement basis is required by IFRSs'[7].

28. At that meeting, the IFRIC also asked the staff to prepare examples that would illustrate the application of the requirement. At its meeting in March 2010, the IFRIC deliberated the proposed illustrative examples and, subject to final review of drafting changes, recommended they be included in the *Improvements to IFRSs* to be published in April 2010.

[7] See *IFRIC Update* in January 2010: http://media.iasb.org/IFRICUpdateJan2010.html#5

29. The matters discussed at the March 2010 IFRIC meeting were set out in agenda paper 5C that can be found on the public website[8].

Question 3 – Amendment to be finalised
Does the Board agree with the IFRIC's recommendations on finalising the illustrative examples for this IFRS 3 amendment as described above?

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – _Change in terminology to the qualitative characteristics_

30. The proposed final wording is presented in agenda papers 12A pages 12-13 and 12B pages 12-13.

31. The IFRIC conditionally confirmed the proposed amendment to enhance consistency with the terminology changes made in the forthcoming conceptual framework that will replace the *Framework*. The IFRIC's recommendation to the Board is subject to the relevant chapters of the forthcoming conceptual framework being issued before finalisation and issue of *Improvements to IFRSs*.

32. The issue was first discussed at the IASB and FASB Board meeting in March 2009; it was set out in agenda paper reference 2 that can be found on the public website[9].

33. At the joint meeting in March 2009, the IASB decided not to make consequential amendments to other standards because:

    (a) nothing in the *Framework* should override any specific standards, and

    (b) updating standards, even to update terminology, would consume more resources than currently available and delay publication of the chapters.

[8] http://www.iasb.org/Meetings/IFRIC+Meeting+March+2010.htm
[9] http://www.iasb.org/NR/rdonlyres/627A3E88-D60D-4E55-AECF-CBB08381DD58/0/CF0903joint2obs.pdf

34. However, the IASB decided that paragraph 10 of IAS 8 should be amended through *Improvements to IFRSs*. These paragraphs are integral to the framework and the IASB's intent is to update them to reflect the use of new terminology for some of the qualitative characteristics of financial reporting arising from the development of the new *Conceptual Framework*.

35. The IFRIC acknowledges the high number of negative comments received on this issue. Because most of the comments related to timing of publication, the IFRIC decided to recommend that the Board proceed with the amendment subject to the relevant chapters of the forthcoming conceptual framework being issued before finalisation and issue of *Improvements to IFRSs*.

36. The matters discussed at the March 2010 IFRIC meeting were set out in agenda paper 5E that can be found on the public website[10].

Question 4 – Amendment to be finalised
Does the Board agree with the IFRIC's recommendations on finalising the IAS 8 proposed amendment, subject to the relevant chapters of the forthcoming conceptual framework being issued before finalisation and issue of *Improvements to IFRSs*?

Proposed amendments recommended for removal, without finalisation, from the *Annual Improvements* project

37. The IFRIC agreed with the staff recommendation that the following two proposed amendments should not be finalised. The IFRIC also confirmed that these two proposed amendments should be formally removed from the *Annual Improvements* project:

    (a) IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations* – Application of IFRS 5 to loss of significant influence over an associate or loss of joint control over a jointly controlled entity.

[10] http://www.iasb.org/Meetings/IFRIC+Meeting+March+2010.htm

(b) IAS 40 *Investment Property* ─ Change from fair value model to cost model.

IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations – *Application of IFRS 5 to loss of significant influence over an associate or loss of joint control over a jointly controlled entity*

38. The proposed amendment requires an entity to classify as held for sale its interest in an associate, or a jointly controlled entity, when it is committed to a sale plan involving loss of significant influence or joint control.

39. At its meeting on 19 February 2010, the Board tentatively decided to remove all descriptions that associate loss of joint control and loss of significant influence in existing IFRSs with the term 'significant economic event'. The Board tentatively decided to retain this term for the event of loss of control.

40. The IFRIC believes that this tentative decision is contradictory to the Board's basis for conclusions relating to the proposed amendment to IFRS 5 that states in proposed paragraph BC24G that:

> The Board concluded in the second phase of its project on business combinations that the loss of control of an entity and the loss of significant influence/joint control over an entity are economically similar events and thus they should be accounted for similarly, consistent with IAS 28 Investments in Associates. The Board therefore clarified that all the interest an entity has in an associate or jointly controlled entity is classified as held for sale if the entity is committed to a sale plan involving loss of significant influence or joint control and all the criteria set out in paragraphs 6-8 of IFRS 5 are met.

41. Consequently, the IFRIC recommended that the Board withdraws the issue from *Annual Improvements*. However, the IFRIC is concerned that clarity is needed on the application of IFRS 5 in circumstances in which a highly probable sale transaction is expected to result in the loss of significant influence or loss of joint control. The IFRIC therefore recommends that the Board address this issue as part of the *Joint Arrangements* project.

42. The matters discussed at the March 2010 IFRIC meeting were set out in agenda paper 5D and 5DA that can be found on the public website[11].

IAS 40 Investment Property – *Change from fair value model to cost model*

43. In December 2008, the Board deliberated a potential inconsistency between IAS 40 *Investment Property*, IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 2 *Inventories* when an entity determines there is a change in use of an investment property. At that meeting, the Board tentatively decided to include in the Exposure Draft of proposed *Improvements to IFRSs* (ED), published in August 2009, a proposed amendment to IAS 40 to:

    (a) remove the requirement to transfer investment property to inventory when there is the 'commencement of development with a view to sale' (IAS 40.57(b)),

    (b) add a requirement for investment property for which an entity has determined there is a change in use and the entity has determined it will sell the investment property to be displayed as a separate category in the statement of financial position, and

    (c) require disclosures consistent with IFRS 5 when an entity has determined there is a change in use and the entity has determined it will sell the investment property (whether or not the criteria in IFRS 5 are met).

44. The IFRIC recommended that the Board address this issue as part of a separate project.

45. The detailed rationale supporting the IFRIC recommendation includes:

    (a) the mixed views expressed by respondents in support of vs against the proposed amendment as drafted in the ED which the IFRIC believes provides evidence that this issue is seen by constituents as requiring more extensive re-deliberation and re-exposure. Issues raised include

[11] http://www.iasb.org/Meetings/IFRIC+Meeting+March+2010.htm

inconsistencies within the proposed amendment and inconsistencies with the recently completed amendment to IAS 16;

(b) the approximately one-third of respondents (that provided a specific response to this issue) directly answering the Board's Invitation to Comment Question 5 supporting a separate project be undertaken for this issue;

(c) the interaction of this issue with other IFRS 5 issues has not been comprehensively analysed. Other recent IFRS 5 issues being deliberated by the Board including those issues that have been incorporated into the project on *Discontinued Operations* expected to issue a final amendment in Q2 2010 as well as issues that have been deliberated by the Board and deferred until a comprehensive post-implementation review of IFRS 5 is performed.

46. The matters discussed at the March 2010 IFRIC meeting were set out in agenda paper 5F that can be found on the public website[12].

Question 5 – Amendments to be removed from the *Annual Improvements* project
Does the Board agree with removing each of the two issues discussed in paragraphs 38-45 from the *Annual Improvements* project? If not, how does the Board wish to proceed with these issues?

[12] http://www.iasb.org/Meetings/IFRIC+Meeting+March+2010.htm