Project **Annual Improvements – 2009–2011 cycle**

Topic **Testing proposed *Annual Improvements* against proposed new criteria**

Introduction

1. Current criteria to asses whether an improvement is part of the *Annual Improvement* project are that the amendment is non-urgent but necessary.

2. Following views expressed by interested parties internationally the Trustees of the IFRS Foundation agreed that the absence of detailed criteria within the IASB Due Process Handbook makes it difficult to assess the appropriateness of amendments to IFRSs for inclusion in *Annual Improvements*.

3. The IASB has therefore exposed for public comments proposed enhanced criteria as part of an amendment to the Due Process Handbook. The comment period ends 30 November 2010.

4. The proposed enhanced criteria are reproduced in full in Appendix A to this paper for ease of reference.

Purpose of this paper

5. Proposed improvements approved by the Board for inclusion in the *Improvements to IFRSs* exposure draft for the 2009-2011 *Annual Improvements* cycle have been assessed against the current criteria.

6. The purpose of this paper is to assess these proposed improvements against the proposed new criteria to see whether they would each qualify as *Annual Improvements* under the new criteria.

Assessment against the new criteria

7. The table below summarises the results of the assessment of each of the current proposed amendments against the proposed enhanced criteria.

Proposed amendments

8. Appendix B to this paper reproduces the proposed amendments for inclusion in the 2009-2011 *Annual Improvements* cycle.

9. Five of these amendments were previously tentatively approved by the Board for inclusion within *Annual Improvements* on the basis of the existing criteria. These amendments relate to the following issues:

   (a) IFRS 1 – Clarification of borrowing costs exemption,

   (b) IAS 1 – Comparative information,

   (c) IAS 16 – Classification of servicing equipment,

   (d) IAS 32 – Income tax consequences of distributions, and

   (e) IAS 34 – Segment information for total assets.

10. Three of these amendments were previously recommended by the Interpretations Committee for inclusion in *Annual Improvements* and will be discussed by the Board during the October 2010 *Annual Improvements* session. These amendments relate to the following issues:

    (a) IFRS 1 – Repeat application,

    (b) IFRS 3 – Contingent consideration, and

    (c) IAS 24 – Key Management Personnel.

11. The staff is currently collecting comments from the members of the Interpretations Committee. These comments will be reflected in the pre-ballot draft.

12. The staff expects to send a pre-ballot draft soon after the Board's session on *Annual Improvements* in October 2010.

Issues to be included in the *Improvements to IFRSs* next exposure draft[1]	**Improvement 65A(a)**[2]		**Narrow and well-defined purpose 65A(b)**	**Conclusion on a timely basis 65A(c)**	**Current or planned Board project 65A(d)**
	Clarification 65A(a)(i)	**Correction 65A(a)(ii)**			
IFRS 1 – Clarification of borrowing costs exemption	The proposed amendment addresses an identified lack of clarity on guidance at the date of transition. The proposed amendment does not change an existing principle, or introduce a new principle into IFRSs.		The proposed change is expected to affect only borrowing costs components of assets held at the date of transition to IFRSs. No consequential amendment to other IFRSs was identified.	Yes	No
IFRS 1 – Repeat application	Clarification of unclear wording in existing IFRSs, specifically wording in IFRS 1. The proposed amendment does not change an existing principle, or introduce a new principle into		The proposed amendment addresses limited and well-defined situations, ie those that meet the existing scope criteria for IFRS 1. No consequential amendment to other IFRSs was identified.	Yes	No

[1] See appendix B to this paper for a full description of the issues.
[2] All references in the columns are to the paragraphs of the Proposals to amend the Due Process Handbook for the IASB reproduced in Appendix A to this paper.

Issues to be included in the *Improvements to IFRSs* next exposure draft[1]	**Improvement 65A(a)[2]**		**Narrow and well-defined purpose 65A(b)**	**Conclusion on a timely basis 65A(c)**	**Current or planned Board project 65A(d)**
	Clarification 65A(a)(i)	**Correction 65A(a)(ii)**			
	IFRSs.				
IFRS 3 – Contingent consideration		The proposed amendment addresses perceived conflicts between requirements in IFRS 3 and other IFRSs in terms of classification, measurement and disclosures of contingent consideration in a business combination.	The proposed amendment specifically addresses the accounting for contingent consideration arising from business combinations which the staff believes is narrow and well-defined. Consequential amendments to IAS 39 and IFRS 7. No further consequential amendment was identified.	Yes	No
IAS 1 – Comparative information	Clarification on requirements related to comparative information. The proposed amendment does not introduce a new principle nor modifies an existing principle.		The proposed change is limited to situations where entities provide some financial statements beyond the minimum comparative information requirements. It also clarifies the requirements for an opening statement of financial position.	Yes	Inclusion in the November 2010 *Annual Improvements* ED would provide improved clarity sooner than can be achieved through the Financial Statements Presentation project

IASB Staff paper

Issues to be included in the *Improvements to IFRSs* next exposure draft[1]	**Improvement 65A(a)**[2]		**Narrow and well-defined purpose 65A(b)**	**Conclusion on a timely basis 65A(c)**	**Current or planned Board project 65A(d)**
	Clarification 65A(a)(i)	**Correction 65A(a)(ii)**			
IAS 16 – Classification of servicing equipment		The proposed amendment removes an inconsistency within IAS 16. The proposed solution does not introduce a new principle nor change an existing one.	The proposed change may have an impact on the classification of well-defined items of property, plant and equipment in some jurisdictions. No consequential amendment to other IFRSs was identified.	Yes	No
IAS 24 – Key Management Personnel (KMP)	Clarification of the appropriate disclosure relating to KMP services when a reporting entity hires key management personnel of a separate management entity. The proposed change does not introduce a new principle nor amend an existing principle. It provides clarification in accordance with existing principles of IAS 24.		The proposed amendment is limited to disclosures in well-defined situations where the reporting entity has no employees and hires key management personnel services from a separate entity. No consequential amendment to other IFRSs was identified.	Yes	No

Issues to be included in the *Improvements to IFRSs* next exposure draft[1]	**Improvement 65A(a)**[2]		**Narrow and well-defined purpose 65A(b)**	**Conclusion on a timely basis 65A(c)**	**Current or planned Board project 65A(d)**
	Clarification 65A(a)(i)	**Correction 65A(a)(ii)**			
IAS 32 – Income tax consequences of distributions		The proposed amendment removes a conflict between IAS 12 and IAS 32 in respect of the accounting for income tax consequences of distributions to holders of equity instruments. The proposed solution does not propose a new principle or change an existing one.	The proposed changes are expected to have an impact on the presentation of tax on distributions to holders of equity instruments. Consequential amendment to IFRIC 2. No further consequential amendment was identified.	Yes	Current project on IAS 12. However, the most efficient way to resolve this matter is to amend IAS 32 as part of the *Annual Improvements*.
IAS 34 – Segment information for total assets		The proposal is to remove an inconsistency between IFRS 8 and IAS 34. The inconsistency results from a missed consequential amendment of a previous improvement to IFRS 8.	The proposed change should have a limited impact on the presentation of total segment assets in the interim financial statements. No consequential amendment to other IFRSs was identified.	Yes	No

Staff conclusion

13. The staff thinks that should the proposed enhanced criteria be finally retained, each of the reviewed proposed improvements would qualify as an *Annual Improvement*.

Question to the Board

Question – Assessment against new criteria
Does the Board agree with the assessment of the proposed improvements against the new criteria?

Appendix A - Proposed new criteria

Extract of the "Proposed amendments to the Due Process Handbook" issued for comments 31 August 2010

65A In planning whether an issue should be addressed by amending IFRSs within the annual improvements project, the IASB assesses the issue against the following criteria. All criteria (a)–(d) must be met to qualify for inclusion in annual improvements.

(a) The proposed amendment has one or both of the following characteristics:

(i) clarifying—the proposed amendment would improve IFRSs by:

- clarifying unclear wording in existing IFRSs, or
- providing guidance where an absence of guidance is causing concern.

A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle.

(ii) correcting—the proposed amendment would improve IFRSs by:

- resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirement should be applied, or
- addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs.

A correcting amendment does not propose a new principle or a change to an existing principle, but may create an exception from an existing principle.

(b) The proposed amendment has a narrow and well-defined purpose, ie the consequences of the proposed change have been considered sufficiently and identified.

(c) It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach agreement on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.

(d) If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a pressing need to make the amendment sooner than the project would.

Appendix B - Proposed amendments

B1 The following pages reproduce the proposed amendments to date.

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

Introduction

The Board proposes the following amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Repeat application of this standard

The Board proposes to clarify that an entity is required to apply this IFRS when the entity's most recent previous financial statements do not contain an explicit and unreserved statement of compliance with IFRSs, even if the entity has applied this IFRS in a previous reporting period.

Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before transition date

The Board proposes to clarify that borrowing costs capitalised in accordance with previous GAAPs should be carried over in the opening statement of financial position. Such borrowing costs should not be eliminated. In addition, the Board proposes to clarify that incurred borrowing costs after the date of transition that relate to qualifying assets under construction at the date of transition should be accounted for in accordance with IAS 23.

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

Paragraphs 2A and 39F are added. Paragraph 2 is reproduced for ease of reference. In Appendix D, paragraph D23 is amended. New text is underlined.

Scope

2 An entity shall apply this IFRS in:

(a) its first IFRS financial statements; and

(b) each interim financial report, if any, that it presents in accordance with IAS 34 *Interim Financial Reporting* for part of the period covered by its first IFRS financial statements.

2A An entity is required to apply this IFRS each time it prepares and presents financial statements that meet the definition of its first IFRS financial statements. This requirement exists when the entity's most recent previous financial statements do not contain an explicit and unreserved statement of compliance with IFRSs, even if the entity has applied this IFRS in a previous reporting period.

Effective date

39F *Improvement to IFRSs* issued in [date] added paragraphs 2A and D23. An entity shall apply these amendments for annual periods beginning on or after 1 January 2012. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Appendix D

Exemptions from other IFRSs

Borrowing costs

D23 A first-time adopter may apply the transitional provisions set out in paragraphs 27 and 28 of IAS 23, as revised in 2007. In those paragraphs references to the effective date shall be interpreted as 1 January 2009 or the date of transition to IFRSs, whichever is later. An entity is permitted to apply the requirements in IAS 23 from an earlier date, if it chooses, as permitted by paragraph 28 of IAS 23. From the date on which the entity applies IAS 23, it:

(a) is not required to restate the borrowing costs component of assets at that date; and

(b) shall account for borrowing costs incurred from that date, including those incurred on qualifying assets already under construction, in accordance with IAS 23.

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

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

Repeat application of the standard

BC1 The Board identified the need to clarify whether an entity is required to apply IFRS 1 in its IFRS financial statements if the entity has applied IFRS 1 in a previous reporting period. For example, an entity may have applied IFRS 1 in a previous reporting period to meet listing requirements in a foreign jurisdiction. The entity then delists and no longer presents financial statements in accordance with IFRSs. In a subsequent reporting period, the reporting requirements in the entity's local jurisdiction may change from national GAAP to IFRSs. Consequently, the entity is again required to present its financial statements in accordance with IFRSs.

BC2 The Board noted that the scope of IFRS 1 focuses on whether an entity's financial statements are its first IFRS financial statements. If an entity's financial statements are its first IFRS financial statements, the entity is required to apply the standard in accordance with paragraph 2(a).

BC3 In determining whether an entity's financial statements are an entity's first IFRS financial statements, the entity assesses whether its most recent previous financial statements include an explicit and unreserved statement of compliance with IFRSs. The entity does not take into consideration any earlier instance (or instances) when it presented its financial statements in accordance with IFRSs.

BC3 However, use of the term 'first' raises the question of whether IFRS 1 can be applied more than once when, after previously applying IFRS 1, an entity's most recent previous financial statements do not include an explicit and unreserved statement of compliance with IFRSs.

BC4 As a consequence, the Board proposes to clarify that an entity is required to apply this IFRS when the entity's most recent previous financial statements do not contain an explicit and unreserved statement of compliance with IFRSs, even if the entity has applied this IFRS in a previous reporting period.

Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before transition date

BC5 Concerns were raised by first-time adopters about the transition provisions for borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before the date of transition. Before this proposed amendment, constituents found it unclear whether borrowing costs capitalised in accordance with previous GAAPs should be retained or eliminated in the opening statement of financial position. Constituents also questioned the accounting, subsequent to transition date, for capitalised borrowing costs relating to such qualifying assets when these qualifying assets are under construction at the date of transition. They sought clarification as to whether the first time adopter should apply the requirements of IAS 23 or whether it should continue applying its previous GAAP even though that previous GAAP is not consistent with IAS 23. Therefore, the Board proposes to clarify that borrowing costs capitalised in accordance with previous GAAPs should be carried over in the opening statement of financial position. Such borrowing costs should not be eliminated as this would entail an impact on retained earnings inconsistent with the effects of a prospective application. In addition, the Board proposes to clarify that incurred borrowing costs after the date of transition that relate to qualifying assets under construction at the date of transition should be accounted for in accordance with IAS 23.

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

Introduction

The Board proposes the following amendment to IFRS 3 *Business Combinations*.

Guidance on accounting for contingent consideration

The Board proposes to amend IFRS 3 to remove references to other IFRSs when prescribing the accounting for contingent consideration arising from business combinations. All guidance on the accounting for contingent consideration arising from business combinations would therefore be regrouped in IFRS 3.

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

Paragraphs 40 and 58 are amended. Paragraph 64D is added. Paragraph B64 is reproduced in part for ease of reference and paragraph B64A is added. New text is underlined and deleted text is struck through.

The acquisition method

Consideration transferred

Contingent consideration

40 The acquirer shall classify an obligation to pay contingent consideration as a liability or as equity on the basis of the definitions of an equity instrument and a financial liability in paragraph 11 of IAS 32 *Financial Instruments: Presentation*~~, or other applicable IFRSs~~. Contingent consideration that is a financial instrument in accordance with the definitions in IAS 32 is not in the scope of IAS 39 or IFRS 9 and shall follow the requirements in this standard. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 58 provides guidance on the subsequent accounting for contingent consideration.

Subsequent measurement and accounting

Contingent consideration

58 Some changes in the fair value of contingent consideration that the acquirer recognises after the acquisition date may be the result of additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date. Such changes are measurement period adjustments in accordance with paragraphs 45–49. However, changes resulting from events after the acquisition date, such as meeting an earnings target, reaching a specified share price or reaching a milestone on a research and development project, are not measurement period adjustments. The acquirer shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

(a) Contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity.

(b) Other ~~C~~contingent consideration ~~classified as an asset or a liability that:~~

~~(i) is a financial instrument and is within the scope of IAS 39~~ shall be measured at fair value at each reporting date, with any resulting gain or loss recognised ~~either~~ in profit or loss for the period ~~or in other comprehensive income in accordance with that IFRS~~.

~~(ii) is not within the scope of IFRS 9 or IAS 39 shall be accounted for in accordance with IAS 37 or other IFRSs as appropriate.~~

Effective date and transition

Effective date

64D *Improvements to IFRSs* issued in [date] amended paragraphs 40 and 58 and added paragraph B64A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2012. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact. Application should be prospective from the date the amendments are effective.

Appendix B

Application guidance

Disclosures (application of paragraphs 59 and 61)

B64 To meet the objective in paragraph 59, the acquirer shall disclose the following information for each business combination that occurs during the reporting period:

(a) …

(g) for contingent consideration arrangements and indemnification assets:

- (i) the amount recognised as of the acquisition date;
- (ii) a description of the arrangement and the basis for determining the amount of the payment; and
- (iii) an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.

B64A For contingent consideration, an entity shall not apply the disclosure requirements set out in IFRS 7 *Financial Instruments: Disclosures.*

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

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

Accounting for contingent consideration

BC1 The Board proposes to clarify the accounting for contingent consideration arising from business combinations. The Board noted that requirements on classification in paragraph 40 of IFRS 3 are inconsistent with requirements on subsequent measurement in paragraph 58 of IFRS 3 for contingent consideration that is a financial instrument within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* when compared with the accounting requirements of IAS 39. Because paragraph 40 of IFRS 3 refers to 'other applicable IFRSs' a contingent consideration that is a financial liability might be classified as at amortised cost. This would conflict with the requirement in paragraph 58 of IFRS 3 that such contingent consideration be subsequently measured at fair value. Therefore, the Board proposes to delete the reference to 'other applicable IFRSs' in paragraph 40 of IFRS 3. The reference to paragraph 11 of IAS 32 *Financial Instruments: Presentation* would remain because such distinction is relevant for the subsequent measurement requirements in paragraph 58(a) of IFRS 3, ie no re-measurement for contingent consideration classified as equity. The proposed amendment entails a consequential amendment to IAS 39 to exclude contingent consideration from its scope.

BC2 As a consequence of not requiring classification of contingent consideration that is a financial instrument in accordance with IAS 39, the Board proposes to delete the option in paragraph 58(b) of IFRS 3 to recognise the resulting gain or loss from changes in fair value through other comprehensive income. All changes in the fair value of the financial instrument would therefore be recognised in profit or loss.

BC3 The Board also noted that the subsequent measurement requirements in paragraph 58(b) of IFRS 3 for contingent consideration that is not a financial instrument conflict with the measurement in other applicable IFRSs. The conflict lies in that paragraph 58(b) of IFRS 3 refers to changes in fair value of contingent consideration and requires contingent consideration be measured in accordance with standards that do not require fair value as a measurement basis. Therefore the Board proposes to delete the reference to 'IAS 37 or other IFRSs as appropriate' from paragraph 58(b) of IFRS 3. The proposal therefore maintains fair value as the subsequent measurement basis for all contingent consideration to which IFRS 3 applies. The Board acknowledges this is a change from the accounting that would apply if these items were not contingent consideration. However, the Board believes that this increases consistency with the principle in IFRS 3 for measuring consideration transferred at fair value.

BC4 In addition, the Board proposes to clarify that the information provided in accordance with paragraph B64 of IFRS 3 is useful and sufficient information. Disclosures in IFRS 7 *Financial Instruments: Disclosures* should not need to be given for contingent consideration that is a financial instrument. The proposed amendment entails a consequential amendment to IFRS 7 to exclude contingent consideration from its scope.

Appendix to proposed amendments to IFRS 3 Amendments to other IFRSs

IFRS 7 *Financial Instruments: Disclosures*

Paragraph 3 is amended and paragraph 44L is added (new text is underlined).

Scope

3 This IFRS shall be applied by all entities to all types of financial instruments, except:

(a) …

(g) contingent consideration to which IFRS 3 *Business Combinations* applies.

Effective date and transition

44L *Improvements to IFRSs* issued in [date] amended paragraph 3. An entity shall apply those amendments for annual periods beginning on or after 1 January 2012. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact. Application should be prospective from the date the amendments are effective.

IAS 39 *Financial Instruments: Recognition and Measurement*

Paragraph 2 is amended and paragraph 108D is added (new text is underlined).

Scope

2 This Standard shall be applied by all entities to all types of financial instruments, except:

(a) …

(f) [deleted]

(i) contingent consideration to which IFRS 3 *Business Combinations* applies.

Effective date and transition

108D *Improvements to IFRSs* issued in [date] amended paragraph 2. An entity shall apply those amendments for annual periods beginning on or after 1 January 2012. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact. Application should be prospective from the date the amendments are effective.

Proposed amendment to IAS 1 *Presentation of Financial Statements*

Introduction

The Board proposes the following amendment to IAS 1 *Presentation of Financial Statements.*

Clarification of requirements for comparative information

The Board proposes to amend IAS 1 (revised 2007) to clarify the requirements for providing comparative information when an entity provides individual financial statements beyond the minimum comparative information requirements.

Proposed amendment to IAS 1 *Presentation of Financial Statements*

Paragraphs 10, 38, 40 and 41 are amended (new text is underlined and deleted text is struck through). Paragraph 39 is deleted. Paragraphs 39A, 39B, 40A, 40B and 139G are added.

Complete set of financial statements

10 **A complete set of financial statements comprises:**

(a) a statement of financial position as at the end of the period;

(b) a statement of comprehensive income for the period;

(c) a statement of changes in equity for the period;

(d) a statement of cash flows for the period;

(e) notes, comprising a summary of significant accounting policies and other explanatory information; ~~and~~

(f) comparative information as required by paragraphs 38–40; and

(g)~~(f)~~ a statement of financial position as at the beginning of the ~~earliest~~ required comparative period if applicable (see paragraph 40A). ~~when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.~~

An entity may use titles for the statements other than those used in this standard. [Based on paragraph 9 in the FSP staff draft]

Comparative information

38 **Except when IFRSs permit or require otherwise, an entity shall ~~disclose~~ present comparative information in respect of the previous period (the required comparative period) for all ~~amounts reported~~ line items presented in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information ~~when~~ if it is relevant to ~~an~~ understanding ~~of~~ the current period's financial statements.** [Based on paragraph 33 in the FSP staff draft]

39 [Deleted] ~~An entity disclosing comparative information shall present, as a minimum, two statements of financial position, two of each of the other statements, and related notes. When an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements, it shall present, as a minimum, three statements of financial position, two of each of the other statements, and related notes. An entity presents statements of financial position as at:~~

~~(a) the end of the current period;~~

~~(b) the end of the previous period (which is the same as the beginning of the current period), and~~

~~(c) the beginning of the earliest comparative period.~~

39A **An entity shall present, as a minimum, two statements of financial position, comprehensive income, cash flows and changes in equity, and related notes.** [Based on paragraph 35 in the FSP staff draft and IAS 1.39]

39B An entity may present additional comparative information for periods prior to the required comparative period as long as that information is prepared in accordance with IFRSs. An entity may present additional comparative information in one or more statements without presenting additional comparative information in other statements. For example, an entity presents amounts for three periods (the current period, the required comparative period and one additional comparative period) in its statement of comprehensive income. The entity is not required to present amounts for that third (additional comparative) period in its statements of financial position, cash flows and changes in equity. However, the entity shall present additional comparative information in the notes to financial statements related to that additional statement of comprehensive income. [Based on paragraph 36 in the FSP staff draft and IAS 1.39]

39 In some cases, narrative information provided in the financial statements for the ~~previous period(s)~~ required comparative period continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute whose outcome was uncertain at the end of the ~~immediately preceding reporting period~~ required comparative period and that is yet to be resolved. Users benefit from the information that the uncertainty existed at the end of the ~~immediately preceding reporting period,~~ required comparative period and also from information about the steps that have been taken during the period to resolve the uncertainty. [Based on paragraph 34 in the FSP staff draft]

Change in accounting policy, retrospective restatement or reclassification

40A An entity shall present an additional statement of financial position as at the beginning of the required comparative period if it applies an accounting principle retrospectively, restates its financial statements or reclassifies items in its financial statements. [Based on paragraph 37 in the FSP staff draft and IAS 1.39]

40B In those circumstances an entity shall present, as a minimum, three statements of financial position and two of each of the other statements and related notes (except related note disclosures for the opening statement of financial position). An entity presents statements of financial position as at:

(a) the end of the current period;

(b) the end of the required comparative period; and

(c) the beginning of the required comparative period.

The date of that opening statement of financial position shall be as at the beginning of the required comparative period regardless of whether an entity's financial statements present comparative information for earlier periods (as discussed in paragraph 39B). [Based on paragraph 38 in the FSP staff draft and IAS 1.39]

41 ~~When the~~ If an entity changes the presentation or classification of items in its financial statements, ~~the entity~~ it shall reclassify comparative amounts unless reclassification is impracticable. When ~~the~~ an entity reclassifies comparative amounts, ~~the entity~~ it shall disclose as at the beginning of the required comparative period:

(a) the nature of the reclassification;

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification. [Based on paragraph 39 in the FSP staff draft]

Transition and effective date

139G *Improvements to IFRSs* issued in [date] amended paragraphs 10, 38, 40 and 41, deleted paragraph 39 and added paragraphs 39A, 39B, 40A, 40B. An entity shall apply this amendment for annual periods beginning on or after 1 January 2012. Earlier application is permitted.

Basis for Conclusions on proposed amendment to IAS 1 *Presentation of Financial Statements*

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

Clarification of requirements for comparative information

BC1 The Board was asked to clarify the requirements for providing comparative information and specifically to consider whether an entity should be required to present a complete set of financial statements when an entity provides individual financial statements beyond the minimum comparative information requirements (ie for more than two periods). In March 2010, the Board proposed that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements because the information would be presented voluntarily. The Board also proposed that paragraphs 38–41 in IAS 1 (revised 2007) be amended to further clarify the requirements for providing comparative information. [Based on paragraph BC56 in the FSP staff draft]

Proposed amendments to IAS 16 *Property, Plant and Equipment*

Introduction

The Board proposes the following amendment to IAS 16 *Property, Plant and Equipment*.

Classification of servicing equipment as inventory or PP&E

The Board proposes to clarify that servicing equipment should be classified as items of property, plant and equipment when they are used during more than one period and inventory otherwise.

Proposed amendment to IAS 16 *Property, Plant and Equipment*

Paragraph 8 is amended (new text is underlined and deleted text is struck through) and paragraph 81F is added.

Recognition

8 Spare parts and servicing equipment are often carried as inventory and recognised in profit or loss as consumed. However, major spare parts, ~~and~~ stand-by equipment <u>and servicing equipment</u> qualify as property, plant and equipment when an entity expects to use them during more than one period. ~~Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.~~

Effective date and transition

Effective date

<u>81F *Improvements to IFRSs* issued in [date] amended paragraph 8. An entity shall apply this amendment for annual periods beginning on or after 1 January 2012. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.</u>

Basis for Conclusions on proposed amendment to IAS 16 *Property, Plant and Equipment*

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

Classification of servicing equipment as inventory or PP&E

BC1 In response to an inconsistency in the classification requirements for servicing equipment, the Board proposes to clarify that servicing equipment should be classified as items of property, plant and equipment when they are used during more than one period and inventory otherwise. In doing so, the Board proposes to place the emphasis on the definition of property, plant and equipment. As a consequence, the Board also proposes to delete the “used only in connection with” condition on the grounds that this condition is too restrictive compared to the current definition of property, plant and equipment.

Proposed amendment to IAS 24 *Related Party Disclosures*

Introduction

The Board proposes the following amendment to IAS 24 *Related Party Disclosures*.

Definition

The Board proposes to clarify that a management entity that provides key management services to a reporting entity is deemed to be the related party rather than the persons that are the key management personnel.

IASB Staff paper
Appendix B

Proposed amendment to IAS 24 *Related Party Disclosures*

Paragraph 9 is amended (new text is underlined) and paragraph 29 is added.

Definitions

9 **The following terms are used in this Standard with the meanings specified:**

A *related party* is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control over the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. <u>If the persons providing the key management personnel services to the reporting entity are employees or directors of an entity that is a related party under (b)(viii) then those persons are not key management personnel for the purposes of applying this standard.</u>

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) <u>The entity, or members of its group, provides key management personnel services to the reporting entity.</u>

Effective date and transition

29 *Improvements to IFRSs* issued in [date] amended paragraph 9. An entity shall apply this amendment for annual periods beginning on or after 1 January 2012. Earlier application is permitted.

Basis for Conclusions on proposed amendment to IAS 24 *Related Party Disclosures*

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

Definition

BC1 Constituents pointed out that divergence exists in the disclosures of related party transactions identified when a management entity provides key management personnel services to a reporting entity. The divergence is that some reporting entities would disclose the compensation paid by the management entity to its employees or directors acting as key management personnel of the reporting entity. Other reporting entities disclose the service fee paid by the reporting entity to the management entity with respect to the key management personnel services rendered.

BC2 The Board noted that IAS 24 *Related Party Disclosures* is unclear as to what information to disclose with respect to key management personnel when those persons are not employees of the reporting entity. To address the diversity in disclosures that arises from IAS 24 being unclear, the Board proposes to amend the definition of a related party. The amendment would clarify that a management entity that provides key management services to a reporting entity is deemed to be the related party rather than the persons that are the key management personnel. As a result of the change, the reporting entity would be required to disclose the service fee paid to the management entity that employs or has as directors the persons that provide the key management services, and would not be required to disclose compensation to those persons. In addition, because the management entity can cause the reporting entity to enter into related party relationships with the management entity's parent or its subsidiaries, the Board proposes that the parent, subsidiaries and fellow subsidiaries of the management entity be also identified as related parties of the reporting entity.

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Appendix B

Proposed amendment to IAS 32 *Financial Instruments: Presentation*

Introduction

The Board proposes the following amendment to IAS 32 *Financial Instruments: Presentation* (as revised in 2009).

Income tax consequences of distributions to holders of an equity instrument, and of transaction costs of an equity transaction

The Board proposes to amend to IAS 32 to clarify that income tax relating to distributions to holders of an equity instrument and transaction costs of an equity transaction shall be accounted for in accordance with IAS 12 *Income Taxes*.

Proposed amendment to IAS 32 *Financial Instruments: Presentation*

Paragraphs 35, 37 and 39 are amended (new text is underlined and deleted text is struck through). Paragraphs 35A and 97G are added.

Presentation

Interest, dividends, losses and gains (see also paragraph AG37)

35 Interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability shall be recognised as income or expense in profit or loss. Distributions to holders of an equity instrument shall be debited by the entity directly to equity~~, net of any related income tax benefit~~. Transaction costs of an equity transaction shall be accounted for as a deduction from equity~~, net of any related income tax benefit~~.

35A Income tax relating to distributions to holders of an equity instrument and transaction costs of an equity transaction shall be accounted for in accordance with IAS 12 *Income Taxes*.

37 An entity typically incurs various costs in issuing or acquiring its own equity instruments. These costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. The transaction costs of an equity transaction are accounted for as a deduction from equity ~~(net of any related income tax benefit)~~ to the extent that they are incremental costs directly attributable to the equity transaction that would otherwise have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.

39 The amount of transaction costs accounted for as a deduction from equity in the period is disclosed separately ~~under~~ in accordance with IAS 1. ~~The related amount of income taxes recognised directly in equity is included in the aggregate amount of current and deferred income tax credited or charged to equity that is disclosed under IAS 12 *Income Taxes*.~~

Effective date and transition

97G *Improvements to IFRSs* issued in [date] amended paragraphs 35, 37 and 39 and added paragraph 35A. An entity shall apply those amendments retrospectively for annual periods beginning on or after 1 January 2012. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

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Basis for Conclusions on proposed amendment to IAS 32 *Financial Instruments: Presentation*

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

Income tax consequences of distributions to holders of an equity instrument and of transaction costs of an equity transaction

BC1 The Board was asked to rectify an inconsistency between IAS 12 *Income Taxes* and IAS 32 *Financial Instruments: Presentation* regarding the recognition of income tax relating to distributions to holders of an equity instrument. Paragraph 52B of IAS 12 requires the recognition of the income tax consequences of dividends in profit or loss except when the circumstances described in paragraph 58(a) and 58(b) of IAS 12 arise. However, paragraph 35 of IAS 32 requires the recognition of income tax relating to distributions to holders of an equity instrument in equity.

BC2 The Board noted that the intention of IAS 32 was to follow the requirements in IAS 12 for accounting for income tax relating to distributions to holders of an equity instrument and transactions costs of an equity transaction. Consequently, the Board added paragraph 35A to IAS 32 to clarify this intent.

Appendix to proposed amendments to IAS 32 Amendments to other IFRSs

IFRIC 2 *Member's Shares in Co-operative Entities and Similar Instruments*

Paragraph 11 is amended (new text is underlined and deleted text is struck through). Paragraph 14B is added.

Consensus

11 As required by paragraph 35 of IAS 32, distributions to holders of equity instruments are recognised directly in equity~~, net of any income tax benefits~~. Interest, dividends and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterised as dividends, interest or otherwise.

Effective date

14B *Improvements to IFRSs* issued in [date] amended paragraph 11. An entity shall apply that amendment retrospectively for annual periods beginning on or after 1 January 2012. If an entity applies the amendment to IAS 32 *Financial Instruments: Presentation* as a part of the *Improvements to IFRSs* issued in [date] for an earlier period, the amendment in paragraph 11 shall be applied for that earlier period.

Proposed amendment to IAS 34 *Interim Financial Reporting*

Introduction

The Board proposes the following amendment to IAS 34 *Interim Financial Reporting*.

Interim Financial Reporting and segment information for total assets

The Board proposes to enhance consistency between the current requirements in IAS 34 *Interim Financial Reporting* on segment information for total assets for each reportable segment and the requirements in IFRS 8 *Operating Segments*. The proposed amendment clarifies that total assets for a particular reportable segment need be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements.

Proposed amendment to IAS 34 *Interim Financial Reporting*

Paragraph 16 is amended (new text is underlined and deleted text is struck through) and paragraph 50 is added.

Content of an interim financial report

Selected explanatory notes

16A An entity shall include the following information, as a minimum, in the notes to its interim financial statements, if material and 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 material to an understanding of the current interim period:

(a) …

(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) …

(iv) total assets <u>for a particular segment when such amounts are regularly provided to the chief operating decision maker and</u> for which there has been a material change from the amount disclosed in the last annual financial statements <u>for that segment</u>;

(v) …

(h) …

Effective date and transition

Effective date

<u>50 *Improvements to IFRSs* issued in [date] amended paragraph 16. An entity shall apply this amendment prospectively for annual periods beginning on or after 1 January 2012. Earlier application is permitted.</u>

Basis for Conclusions on proposed amendment to IAS 34 *Interim Financial Reporting*

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

Selected explanatory notes

BC1 The Board proposes to clarify the current requirements in IAS 34 *Interim Financial Reporting* on segment information for total assets for each reportable segment in order to enhance consistency with the requirements in paragraph 23 of IFRS 8 *Operating Segments*. The proposed amendment clarifies that total assets for a particular reportable segment is required to be disclosed only when both:

(a) the amounts are regularly provided to the chief operating decision maker; and

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