Project	**Annual Improvements – 2009–2011 cycle**
Topic	**Issues recommended by the Committee not to lead to amendments within the scope of the *Annual Improvements* process**

Introduction

1. At its meeting in September 2010, the IFRS Interpretations Committee (the Interpretations Committee) reviewed a selection of issues for potential resolution through the *Annual Improvements* process for 2009-2011.
2. The Interpretations Committee tentatively decided to recommend that the Board should not proceed with two of these issues through the *Annual Improvements* process.
3. This paper discusses collectively these two issues.

Purpose of this paper

4. The objective of this paper is to:
   (a) present background information for these issues and give an overview of the staff's analysis of the issues,
   (b) explain the rationale for the Interpretations Committee's decision not to recommend that the Board amend the relevant standards through the *Annual Improvements*, and
   (c) ask for the Board's agreement with the Interpretations Committee's recommendation.

IAS 1 *Presentation of Financial Statements* — Encouraged versus required disclosures

Background information

5. The Interpretations Committee decided at its meeting in May 2009 to recommend that the Board undertake a review of all disclosures encouraged (but not required) by IFRSs with the objective of either confirming that they are required or eliminating them.

6. As of January 2010, the Interpretations Committee became involved with the *Annual Improvements* project. The Interpretations Committee therefore considered this issue further at its meeting in September 2010.

Summary of the staff's analysis

7. The following is a summary of the analysis presented at the Interpretations Committee in September 2010. The full staff analysis was set out in agenda paper 8 that can be found on the public website[1].

8. Appendix A to this paper provides a list of the disclosures that are encouraged throughout IFRSs.

Disclosures with common features

9. The staff identified ten "encouraged" disclosures throughout IFRSs. Among these, the staff believes that seven have the following common features:

   (a) They reflect specific economic circumstances and may not affect the financial statements on a regular basis,

   (b) They highlight specific characteristics of an industry, and

   (c) They are rarely provided in practice.

10. Appendix B to this paper provides a list of the seven disclosures that the staff believes share these common features.

[1] http://www.ifrs.org/NR/rdonlyres/26DB23E2-F9BF-4CD9-9162-9936B7E76B15/0/1009obs8.pdf

11. The staff identified three potential paths forward for these disclosures:

    (a) View A: make mandatory all currently encouraged information.

    (b) View B: remove the disclosures from the standards they currently belong to and use them as illustrative examples of disclosures that shall be given when necessary for an understanding of the financial statements following IAS 1 general principles.

    (c) View C: delete the disclosures from IFRS literature.

12. In line with the principles for disclosing relevant information set out in paragraph 112(c) of IAS 1, the staff recommended to the Interpretations Committee that information that is applicable only under specific economic circumstances should not be part of disclosure requirements in each relevant standard. This is because the staff believes that listing disclosures on such specific information in the Disclosures section of a standard is not consistent with the Board's intent to set principle-based disclosures. Paragraph 112(c) of IAS 1 is reproduced below for ease of reference.

    > 112 The notes shall:
    >
    > (a) …
    >
    > (c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

13. Therefore the staff recommended that these disclosures should be removed from the standards.

14. The staff believes that these seven disclosures are useful in that they provide illustrative examples of appropriate information to disclose when applying paragraph 112(c) of IAS 1 under certain circumstances. In the staff's view, these disclosures illustrate information an entity's management might decide needs to be disclosed under those circumstances.

15. Therefore the staff recommended view B to the Interpretations Committee and proposed to include these disclosures within the Guidance on Implementing IAS 1[2].

Other disclosures

16. The staff's recommendations on the three other disclosures are presented in Appendix C to this paper. Appendix C provides a table that summarises the staff's recommendations to the Interpretations Committee for each identified disclosure.

17. The staff notes that the encouraged disclosures in IAS 7 *Statement of Cash Flows* and IAS 17 *Leases* are subject to consequential amendments or replacement as part of currently on going projects. For those two encouraged disclosures, the staff sees mainly a timing benefit in addressing them through *Annual Improvements*.

18. The staff's recommendation to the Interpretations Committee to delete the encouraged disclosure in IAS 12 is based on the feedback received from outreach activities. Constituents commented that:

    (a) this information is rarely if ever provided in practice, and

    (b) the cost of providing this information exceeds benefits for users.

Interpretation's Committee recommendation to the Board

19. The staff performed the above analysis presented to the Interpretations Committee on the basis that encouraged disclosures are currently neither required nor constitute a description of specific circumstances in which they might arise. In practice, these disclosures are seldom provided. The difficulty then is to find a way to ensure that appropriate disclosure is made.

[2] The staff noted a comment from the Interpretations Committee members that moving disclosures currently in IAS 34 *Interim Financial Reporting* to Implementation Guidance in IAS 1 would be inconsistent with the scope of IAS 1 that does not apply to interim financial statements.

20. At the Interpretations Committee in September 2010, the Interpretations Committee was informed that current Board projects are proposing the inclusion of disclosure principles in IFRSs, supplemented by example disclosures.

21. In light of this approach to disclosure requirements, the Interpretations Committee tentatively decided that it was not necessary to address these issues and that the criteria for including it within *Annual Improvements* were not met.

22. The staff believes that the same conclusion can be reached when assessing the issue against the newly proposed criteria for inclusion of issues within *Annual Improvements.*

23. Therefore the Interpretations Committee recommends that the Board do not add this issue to *Annual Improvements.*

Question to the Board

Question 1 – Interpretations Committee's recommendation
Does the Board agree with the Committee's recommendation not to propose an amendment through *Annual Improvements* for this issue?

IAS 21 *The Effects of Changes in Foreign Exchange Rates* — Repayments of investments and foreign currency translation reserve

Background information

24. In March 2010, the Interpretations Committee began discussions on an issue that relates to determining when the separate equity reserve related to the retranslation of the net assets of an investor's net investment in a subsidiary (often referred to as foreign currency translation reserve or 'FCTR') should be recycled.

25. The submission received requested the matter be addressed as part of the Board's *Annual Improvements* project.

26. In July 2010, the Interpretations Committee published a tentative agenda decision not to add the issue to its agenda or to recommend that the Board should include the issue within *Annual Improvements*. The Interpretations Committee found they could not reach a consensus on the issue on a timely basis. The full staff analysis was set out in agenda paper 11 that can be found on the public website[3].

27. Three comment letters were received that either disagreed with the tentative agenda decisions or recommended additional action be taken to address the issue. This paper provides in paragraphs 40 to 43 below a summary analysis of the comments received.

28. Therefore, in September 2010, the staff brought the issue back to the Interpretations Committee for further consideration.

[3] http://www.ifrs.org/NR/rdonlyres/39ABE1D6-BEC4-48F1-A10E-A9C28509F83A/0/1007obs11IAS21.pdf

The issue

29. The request specifically sought guidance on whether FCTR should be recycled when there is a reduction in:

    (a) **View 1 –** the **proportionate** (relative) equity ownership interest in a foreign operation; or

    (b) **View 2 –** the **absolute** amount of an entity's ownership interest in a foreign operation, even if there is no reduction in the proportionate equity ownership interest in the foreign operation.

Summary of staff analysis

View 1 – Recycle FCTR when proportionate reduction

30. View 1 supports that amounts recognised in FCTR related to a foreign operation are recycled only when there is a reduction in the entity's proportionate ownership interest in the foreign operation. Therefore under this view 'ownership interest' is defined as the proportionate interest in the foreign operations.

31. View 1 is also consistent with the IAS 27 *Consolidated and Separate Financial Statements* as revised. Under IAS 27 gain and loss on disposal arises only when a parent loses control and not if ownership interest is reduced, in either percentage or absolute terms. Consistent with this rationale, there is no recycling of FCTR for the partial disposal through sale or liquidation/ abandonment in stages.

32. This view can also be supported by the change that was made regarding dividend payments by foreign operations – amendment included in the *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (Amendments to IFRS 1 and IAS 27) issued May 2008. This amendment deleted the requirement that payment of dividends is partial disposal only when it constitutes a return of investment. This amendment means that dividend payments by foreign operations (both pre-acquisition profits and post) are no

longer required to be treated as a disposal or partial disposal and do therefore not result in any recycling of FCTR. With reference to this change it can therefore be argued that part realisation without a change in relative ownership is not sufficient to trigger recycling.

33. However, the staff notes that the amendment was made in relation to separate financial statements only, where the cost method is applied, so it is not clear whether this applies also to consolidated financial statements.

View 2 – Recycle FCTR when absolute reduction

34. View 2 supports that amounts recognised in FCTR related to a foreign operation are recycled any time there is a reduction in the entity's absolute ownership interest in the foreign operation.

35. This view closely follows the wording in paragraph 48D of IAS 21 in that '<u>any reduction</u> in an entity's ownership interest in a foreign operation' (emphasis added) is deemed to be a partial disposal. Based on the guidance in paragraph 48C for partial disposals of subsidiaries, 'the the entity shall re-attribute the proportionate share' of the FCTR recognised in other comprehensive income (OCI) to the non-controlling interests. Based on the guidance in paragraph 48C for any other partial disposal [of joint ventures or associates], 'the entity shall reclassify to profit or loss only the proportionate share' of FCTR recognised in OCI.

36. FCTR can be seen as representing the 'unrealised gains/ losses' related to changes in foreign exchange rates that a parent/ investor has with respect to its net investment in the subsidiary/ joint venture/ associate. As long as that net investment remains denominated in the foreign currency in any form (property, plant and equipment, financial assets, cash, etc.) the parent/ investor remains subjected to the changes in foreign exchange rates and no recycling of FCTR should occur.

37. The staff believes that the rationale of FCTR representing the unrealised gains/ losses is consistent with view 2.

38. Additionally, the advocates for view 2 say that using only changes in the proportionate ownership to decide when to recycle FCTR (view 1) seems to give an odd result in the case of a liquidation or abandonment in stages, in that nothing is recycled until the very last bit is liquidated/ abandoned, at which time control/ significant influence/ joint control is lost through having no ownership interest.

Staff recommendation

39. The staff suggested that the Interpretations Committee recommend that the Board should amend IAS 21 based on view 2. However, as noted above, the Interpretations Committee was unable to reach a consensus on this matter.

Summary of comment letters analysis

40. The following is a summary of the comment letters analysis presented at the Interpretations Committee in September 2010. The full staff analysis was set out in agenda paper 7 that can be found on the public website[4].

41. One comment letter recommends that the board should include this issue in a review of IAS 21 which may be undertaken as a part of the Board's post-2011 agenda.

42. The other two letters disagreed not to take the issue through *Annual Improvements* as they believes paragraphs 48 and 49 of IAS 21 are unclear and ambiguous.

43. At its meeting in September 2010, the Interpretations Committee confirmed its previous conclusion that it would not be able to reach a consensus on the issue on a timely basis. In addition, it recommended that the Board should address this issue as part of a review of IAS 21 in the context of the future Board agenda.

[4] http://www.ifrs.org/Meetings/IFRIC+Meeting+2+September+2010.htm

Interpretation's Committee recommendation to the Board

44. The Interpretations Committee recommends that the Board should not address the issue through *Annual Improvements*. However, the Interpretations Committee recommends that the Board should consider this issue within a broad review of IAS 21 as a potential item for its future agenda.

Question to the Board

Question 2 – Committee's recommendation
Does the Board agree with the Committee's recommendations not to propose an amendment through *Annual Improvements* to address the issue?

Appendix A – List of identified encouraged disclosures throughout IFRSs

IFRS	Text of the disclosure
IAS 7 ***Statement of Cash Flows***	50. Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is **encouraged** and may include: (a) the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities; (b) the aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation; (c) the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; and (d) the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment (see IFRS 8 *Operating Segments*).
IAS 12 ***Income taxes***	87. It would often be impracticable to compute the amount of unrecognised deferred tax liabilities arising from investments in subsidiaries, branches and associates and interests in joint ventures (see paragraph 39). Therefore, this Standard requires an entity to disclose the aggregate amount of the underlying temporary differences but does not require disclosure of the deferred tax liabilities. Nevertheless, where practicable, entities are **encouraged** to disclose the amounts of the unrecognised deferred tax liabilities because financial statement users may find such information useful.
IAS 16 ***Property, Plant and Equipment***	79. Users of financial statements may also find the following information relevant to their needs: (a) the carrying amount of temporarily idle property, plant and equipment; (b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use; (c) the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with IFRS 5; and (d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount. Therefore, entities are **encouraged** to disclose these amounts.
IAS 17 ***Leases***	48. As an indicator of growth **it is often useful also to disclose** the gross investment less unearned income in new business added during the period, after deducting the relevant amounts for cancelled leases.
IAS 33 ***Earnings per share***	72. Financial instruments and other contracts generating potential ordinary shares may incorporate terms and conditions that affect the measurement of basic and diluted earnings per share. These terms and conditions may determine whether any

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IFRS	Text of the disclosure
	potential ordinary shares are dilutive and, if so, the effect on the weighted average number of shares outstanding and any consequent adjustments to profit or loss attributable to ordinary equity holders. The disclosure of the terms and conditions of such financial instruments and other contracts is **encouraged**, if not otherwise required (see IFRS 7 *Financial Instruments: Disclosures*).
IAS 34 *Interim Financial Reporting*	21. For an entity whose business is highly seasonal, financial information for the twelve months up to the end of the interim period and comparative information for the prior twelve-month period may be useful. Accordingly, entities whose business is highly seasonal are **encouraged** to consider reporting such information in addition to the information called for in the preceding paragraph.
IAS 36 *Impairment of Assets*	132. An entity is **encouraged** to disclose assumptions used to determine the recoverable amount of assets (cash-generating units) during the period. However, paragraph 134 requires an entity to disclose information about the estimates used to measure the recoverable amount of a cash-generating unit when goodwill or an intangible asset with an indefinite useful life is included in the carrying amount of that unit.
IAS 38 *Intangible Assets*	128. An entity is **encouraged, but not required**, to disclose the following information: (a) a description of any fully amortised intangible asset that is still in use; and (b) a brief description of significant intangible assets controlled by the entity but not recognised as assets because they did not meet the recognition criteria in this Standard or because they were acquired or generated before the version of IAS 38 *Intangible Assets* issued in 1998 was effective.
IAS 41 *Agriculture*	43. An entity is **encouraged** to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets, as appropriate. For example, an entity may disclose the carrying amounts of consumable biological assets and bearer biological assets by group. An entity may further divide those carrying amounts between mature and immature assets. These distinctions provide information that may be helpful in assessing the timing of future cash flows. An entity discloses the basis for making any such distinctions.
IAS 41 *Agriculture*	51. The fair value less costs to sell of a biological asset can change due to both physical changes and price changes in the market. Separate disclosure of physical and price changes is useful in appraising current period performance and future prospects, particularly when there is a production cycle of more than one year. In such cases, an entity is **encouraged** to disclose, by group or otherwise, the amount of change in fair value less costs to sell included in profit or loss due to physical changes and due to price changes. This information is generally less useful when the production cycle is less than one year (for example, when raising chickens or growing cereal crops).

Appendix B – Disclosures with common features

B1 The staff notes that 7 out of the 10 identified encouraged disclosures listed in Appendix B have common features as discussed in paragraph 9 of the paper. The 7 encouraged disclosures are:

(a) paragraph 79 of IAS 16 about fully depreciated but still in use property, plant and equipment (PP&E), temporary idle PP&E, retired from active use PP&E and fair value of PP&E – see paragraphs 50 to 57 of the paper,

(b) paragraph 72 of IAS 33 on terms and conditions of contracts generating potential ordinary shares - see paragraphs 62 to 68 of the paper,

(c) paragraph 21 of IAS 34 on quantitative information for entities whose business is highly seasonal - see paragraphs 69 to 74 of the paper,

(d) paragraph 132 of IAS 36 on assumptions used to determine the recoverable amount of assets - see paragraphs 75 to 80 of the paper,

(e) paragraph 128 of IAS 38 on fully amortised but still in use intangible assets and unrecognised intangible assets - see paragraphs 81 to 89 of the paper, and

(f) paragraphs 43 and 51 of IAS 41 on quantified description of each group of biological asset and on change in fair value due to physical changes and/or price changes - see paragraphs 90 to 94 of the paper.

Appendix C - Summary of original staff recommendations for each disclosure presented at the Committee meeting in September 2010

C1 The table below summarises the staff recommendation for each identified encouraged disclosure:

<table>
<tr><th>Reference</th><th>Short description of the disclosure</th><th>Staff recommendation</th></tr>
<tr><td colspan="3">IAS 7 Statement of Cash Flows</td></tr>
<tr><td>IAS 7.50(a)</td><td>Undrawn borrowing facilities</td><td>Proposes requiring in line with the Board’s tentative decisions in April 2010 in the Financial Statement Presentation project.</td></tr>
<tr><td>IAS 7.50(b)</td><td>Cash flows from proportionately consolidated entities</td><td>N/A - Deleted as a consequential amendment from the forthcoming Joint Arrangements standard</td></tr>
<tr><td>IAS 7.50(c)</td><td>Cash flows from increase in operating capacity vs existing capacity.</td><td rowspan="2">Proposes deleting in line with the Board’s tentative decisions in April 2010 in the Financial Statement Presentation project.</td></tr>
<tr><td>IAS 7.50(d)</td><td>Cash flows from activities by segments.</td></tr>
<tr><td colspan="3">IAS 12 Income Taxes</td></tr>
<tr><td>IAS 12.87</td><td>Unrecognised deferred tax liabilities arising from investments in controlled or non-controlled entities.</td><td>Proposes deleting based on feedback received.</td></tr>
<tr><td colspan="3">IAS 16 Property, Plant and Equipment</td></tr>
<tr><td>IAS 16.79(a)</td><td>Temporary idle PP&E.</td><td rowspan="4">Proposes moving the encouraged disclosures to Guidance on Implementing IAS 1.</td></tr>
<tr><td>IAS 16.79(b)</td><td>Fully depreciated PP&E still in use.</td></tr>
<tr><td>IAS 16.79(c)</td><td>PP&E retired from active use but not classified as held for sale.</td></tr>
<tr><td>IAS 16.79(d)</td><td>Fair value of PP&E when materially different from cost.</td></tr>
</table>

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Reference	Short description of the disclosure	Staff recommendation
IAS 17 ***Leases***		
IAS 17.48	Gross investment less unearned income in new business.	Proposes deleting the encouraged disclosures.
IAS 33 Earnings per Share		
IAS 33.72	Terms and conditions of contracts generating potential ordinary shares.	Proposes moving the encouraged disclosures to Guidance on Implementing IAS 1.
IAS 34 ***Interim Financial Reporting***		
IAS 34.21	Quantitative information for entities whose business is highly seasonal.	Proposes moving the encouraged disclosures to Guidance on Implementing IAS 1.
IAS 36 ***Impairment of Long-lived Assets***		
IAS 36.132	Assumptions used to determine the recoverable amount of assets or CGUs tested for impairment.	Proposes moving the encouraged disclosures to Guidance on Implementing IAS 1.
IAS 38 ***Intangible Assets***		
IAS 38.128(a)	Fully amortised intangible asset that is still in use.	Proposes moving the encouraged disclosures to Guidance on Implementing IAS 1.
IAS 38.128(b)	Intangibles assets not recognised because do not meet recognition criteria or acquired or generated before IAS 38 issued in 1998was effective.	Proposes moving the encouraged disclosures to Guidance on Implementing IAS 1. Suggests deleting the second part of subparagraph 128(b) relating to intangible assets acquired or generated before IAS 38 issued in 1998was effective.
IAS 41 ***Agriculture***		
IAS 41.43	Quantified description of each group of biological assets.	Proposes moving the encouraged disclosures to Guidance on Implementing IAS 1.
IAS 41.51	Change in fair value due to physical changes and/or due to price changes.	