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

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

Introduction

1. Following views expressed by interested parties internationally the Trustees of the IFRS Foundation asked the IASB to propose enhanced criteria to assess the appropriateness of amendments to IFRSs for inclusion in *Annual Improvements*.

2. At its meeting on 10 and 11 February 2011, the Trustees approved new criteria for inclusion in *Annual Improvements*. For ease of reference, these new criteria are reproduced in full in Appendix A to this paper.

Purpose of this paper

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

4. Proposed annual improvements approved by the Board for inclusion in the *Improvements to IFRSs* exposure draft (ED) for the 2009-2011 *Annual Improvements* cycle were assessed in October 2011 against the proposed enhanced criteria, before the Trustees' approval in February 2011. This is because the ED was initially planned to be published in November 2011. The staff had proposed

that any amendments approved following the comment period would have been assessed against the finalised criteria.

5. The publication of the ED was delayed from November 2010 to April 2011 in consideration of the other requests on constituents to respond to other consultation documents. We now have the opportunity to assess the proposed annual improvements against the finalised new criteria.

Proposed amendments

6. Agenda paper 9A reproduces the proposed amendments for inclusion in the 2009-2011 *Annual Improvements* cycle, marked-up to the version provided to the Board in November 2010.

7. The ED initially planned for publication in November 2010 comprised the six following issues, that were assessed against the proposed enhanced criteria:

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

   (b) IFRS 1 – Repeat application of this standard,

   (c) IAS 1 – Comparative information,

   (d) IAS 16 – Classification of servicing equipment,

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

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

8. An additional proposed amendment, dealing with enhanced consistency between IAS 1 and the *Conceptual Framework* published in September 2010, was discussed by the Board at its meeting in January 2011. At this meeting, the Board tentatively approved this proposed amendment be included in the 2009-2011 *Annual Improvements* cycle, based on the proposed enhanced criteria.

9. The staff expects to send a ballot draft so that the exposure draft can be published next month.

Staff conclusion

10. The staff think that each of the reviewed proposed improvements qualifies as an *Annual Improvement*. Appendix B to this paper provides for a detailed assessment of the proposed amendments against the new criteria.

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 – Qualifying assessment criteria for *Annual Improvements*

A1. Below is reproduced for ease of reference paragraph 65A of the Due Process Handbook for the International Accounting Standards Board as amended by the Trustees in February 2011:

> 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.
>
> (b) The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.
>
> (c) It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach a conclusion 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 need to make the amendment sooner than the project would.

Appendix B Assessment against the new criteria

B1. The table below summarises the results of the assessment of each of the proposed amendments against the new criteria.

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		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 due to amend the Due Process Handbook for the IASB reproduced in Appendix A to this paper.

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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)**			
	change an existing principle, or introduce a new principle into IFRSs.				
IAS 1 - Enhanced consistency with the *Conceptual Framework* published in September 2010		Updating IAS 1 to be consistent with the *Conceptual Framework* will ensure that preparers and the Board will be applying the same concepts with the same meaning and words. The proposed amendment does not change an existing principle, or introduce a new principle into IFRSs.	The proposed amendment is for enhanced consistency purposes and should ensure application of the same concepts with the same meaning and words. No consequential amendment to other IFRSs was identified.	Yes	Addressing the issues discussed via an annual improvement is faster than amending IAS 1 via the *Financial Statement Presentation* project.
IAS 1 – Comparative information	Clarification on requirements related to comparative information. The proposed amendment does not		The proposed change is limited to situations where entities provide some financial statements beyond the minimum comparative information requirements. It also clarifies the requirements	Yes	Inclusion in the *Annual Improvements* ED would provide improved clarity sooner than can

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	Clarification 65A(a)(i)	**Correction 65A(a)(ii)**			
	introduce a new principle nor modifies an existing principle.		for an opening statement of financial position.		be achieved through the Financial Statements Presentation project
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 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	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 was identified. 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*.

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	Clarification 65A(a)(i)	**Correction 65A(a)(ii)**			
		does not propose a new principle or change an existing one.			
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