# STAFF PAPER

**18–26 July 2013**

**IASB Meeting**

IASB: Dec 2012, Feb – Jun 2013

| | |
|---|---|
| **Project** | **Annual Improvements to IFRSs—2010-2012 Cycle** |
| Paper topic | Summary of due process followed |

CONTACT Thomas Harzheim tharzheim@ifrs.org +44 (0)20 7246 0552



## Introduction

1. The IASB published its Exposure Draft (ED) *Annual Improvements to IFRSs 2010–2012 Cycle* (ED/2012/1) in May 2012, which proposed a total of 11 amendments to Standards. The comment period ended on 5 September 2012 and the IASB received 84 comment letters.

2. The IASB discussed comment letter analyses and recommendations from the IFRS Interpretations Committee ('the Interpretations Committee') on how to proceed with ten of the proposed amendments at its meetings in:

   (a) December 2012;

   (b) February 2013;

   (c) March 2013;

   (d) April 2013; and

   (e) May 2013.

3. At its meeting in June 2013, the IASB discussed and agreed a sweep issue that had been raised during the drafting of the final amendment to IFRS 2 *Share-based Payment*.

4. On the basis of the tentative decisions taken at the IASB meetings listed in previous paragraphs of this staff paper, the 2010–2012 Cycle of Annual Improvements to IFRSs would include the following eight amendments ('the final amendments'):

(a) IFRS 2 *Share-based Payment*—Definition of 'vesting condition';

(b) IFRS 3 *Business Combinations*—Accounting for contingent consideration in a business combination;

(c) IFRS 8 *Operating Segments*—Aggregation of operating segments;

(d) IFRS 8 *Operating Segments*—Reconciliation of the total of the reportable segments' assets to the entity's assets;

(e) IFRS 13 *Fair Value Measurement*—Short-term receivables and payables;

(f) IAS 16 *Property, Plant and Equipment*—Revaluation method—proportionate restatement of accumulated depreciation;

(g) IAS 38 *Intangible Assets*—Revaluation method—proportionate restatement of accumulated depreciation; and

(h) IAS 24 *Related Party Disclosures*—Key management personnel.

The proposed amendments to IAS 16 and IAS 38 were combined in the ED to improve the illustration of the proposal.

5. After discussing this summary of the due process followed, we want to start the drafting and balloting of the final amendments.

6. Furthermore, in January 2013 the Trustees approved the updated IASB and IFRS Interpretations Committee *Due Process Handbook* (the 'updated *Due Process Handbook*'). The proposals in the ED, however, were assessed against the previous version of the *Due Process Handbook*.

7. The purpose of this paper is therefore to:

(a) provide the IASB with a brief summary of the final amendments in Appendix A to this staff paper;

(b) assess these final amendments against the Annual Improvements criteria of the updated *Due Process Handbook* in Appendix A to this staff paper;

(c) assess whether the final amendments can be finalised or need to be re-exposed before finalisation;

(d) discuss the mandatory effective dates of the final amendments;

(e) explain the steps in the due process that the IASB has taken since the publication of the ED in Appendix B to this staff paper; and

(f) ask questions to the IASB.

## The amendments

8. On the basis of the tentative decisions taken by the IASB at its meetings in December 2012 and February–June 2013 the 2010–2012 Cycle of Annual Improvements to IFRSs would contain eight amendments affecting eight Standards and the Basis for Conclusions of IFRS 13 *Fair Value Measurement* (see paragraph 4 of this staff paper).

9. All of these issues were also discussed by the Interpretations Committee.

10. A summary of these amendments, taking into account modifications resulting from the comment letter analysis and the discussions of the Interpretations Committee and the IASB, are given in Appendix A of this staff paper.

## Annual Improvements criteria

11. In January 2013, the Trustees approved the updated *Due Process Handbook*. In accordance with the updated *Due Process Handbook*, the IASB assesses issues against the following criteria when deciding whether an issue should be addressed by amending Standards within the Annual Improvements project:

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

(i) clarifying the wording in a Standard—"Clarifying a Standard involves either replacing unclear wording in existing Standards or providing guidance where an absence of guidance is causing concern. Such an amendment maintains consistency with the existing principles within the applicable Standard and does not propose a new principle or change an existing principle" (see paragraphs 6.11–6.12 of the updated *Due Process Handbook*); or

(ii) correcting relatively minor unintended consequences, oversights or conflicts between existing requirements of Standards—"Resolving a conflict between existing requirements of Standards includes addressing oversights or relatively minor unintended consequences that have arisen as a result of the existing requirements of Standards. Such amendments do not propose a new principle or a change to an existing principle" (see paragraphs 6.11 and 6.13 of the updated *Due Process Handbook*).

(b) Annual Improvements should be well-defined and narrow in scope. As a guide, if the IASB takes several meetings to reach a conclusion, it is an indication that the cause of the issue is more fundamental than can be resolved within the Annual Improvements process (see paragraphs 6.10 and 6.14 of the updated *Due Process Handbook*).

12. The assessment of the amendments against the Annual Improvements criteria is included in Appendix A of this staff paper. In our opinion, the final amendments satisfy the Annual Improvement criteria.

## Finalisation or re-exposure

13. Paragraph 6.25 of the updated *Due Process Handbook* specifies the criteria by which the IASB assesses whether the proposals can be finalised or whether they should be re-exposed.

14. In considering whether there is a need for re-exposure, the IASB:

(a) identifies substantial issues that emerged during the comment period on the Exposure Draft and that it had not previously considered;

(b) assesses the evidence that it has considered;

(c) determines whether it has sufficiently understood the issues, implications and likely effects of the new requirements and actively sought the views of interested parties; and

(d) considers whether the various viewpoints were appropriately aired in the Exposure Draft and adequately discussed and reviewed in the Basis for Conclusions.

15. Taking into consideration the re-exposure criteria in paragraphs 6.25–6.29 of the updated *Due Process Handbook*, we think that the final amendments listed in paragraph 4 of this staff paper should be finalised without re-exposure.

16. The IASB identified substantial issues, which it had not previously considered, from the comment letters on the following proposals:

    (a) IAS 1 *Presentation of Financial Statements*—Current/non-current classification of liabilities;

    (b) IAS 7 *Statement of Cash Flows*—Interest paid that is capitalised; and

    (c) IAS 12 *Income Taxes*—Recognition of deferred tax assets for unrealised losses.

17. In order to address these substantial issues, the IASB tentatively decided to proceed with two of these proposed amendments outside this cycle of Annual Improvements to IFRSs (see paragraphs 16(a) and (c) of this staff paper). For the proposed amendment 'IAS 7 *Statement of Cash Flows*—Interest paid that is capitalised', the substantial issue resulted in the IASB's tentative decision not to proceed with the proposed amendment at all (see paragraph 16(b) of this staff paper).

## Effective date

18. Paragraph 6.35 of the updated *Due Process Handbook* requires that the mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements.

19. Annual Improvements are by definition clarifying or correcting in nature, well-defined and sufficiently narrow in scope. Consequently, we think that a period of at least six months between issuing the final amendments and the mandatory effective date is sufficient.

20. When issuing the ED we expected to issue the final amendments in Q2 of 2013. Accordingly, the ED proposed a mandatory effective date of 1 January 2014. Only the proposed amendment to IFRS 3 proposed a mandatory effective date of

1 January 2015 because of a consequential amendment to IFRS 9 *Financial Instruments.*

21. We now expect to issue the final amendments in Q4 of 2013. Consequently, we propose to change the mandatory effective date for the amendments to 1 July 2014.

22. Furthermore, at its meeting in May 2013, the IASB tentatively decided that the amendment to IFRS 3 should not only include a consequential amendment to IFRS 9. An equivalent consequential amendment should also be made to IAS 39 *Financial Instruments: Recognition and Measurement.*

23. Consequently, we propose that the amendment to IFRS 3 should also become effective on 1 July 2014. We see no longer a need to link the mandatory effective date of the proposed amendment to IFRS 3 to the mandatory effective date of IFRS 9.

## Due process steps

24. In Appendix B we have summarised the due process steps that we have taken since publishing the ED. In order to summarise these steps and thereby demonstrate that we have met all the due process requirements to date, we used the Due Process Protocol 'Finalisation of a Standard, Practice Guidance or *Conceptual Framework* chapter' that is consistent with the updated *Due Process Handbook*.

**Questions for the IASB on compliance with Due Process**

1. Does the IASB agree that the amendments to be finalised as part of the 2010–2012 Cycle of Annual Improvements to IFRSs meet the criteria given in the updated *Due Process Handbook* for Annual Improvements to IFRSs?
2. Does the IASB agree that the amendments to be finalised as part of the 2010–2012 Cycle of Annual Improvements to IFRSs do not need to be re-exposed before finalisation?
3. Does the IASB agree with changing the mandatory effective date of the amendments to 1 July 2014?
4. Is the IASB satisfied that all required due process steps applicable so far have been complied with?
5. Does the IASB agree that we can proceed with the drafting and the balloting of the final amendments?

## Appendix A—The amendments

A1. The amendments that would be finalised as part of the 2010–2012 Cycle of Annual Improvements to IFRSs are set out in the following table.

| **IFRS** | **Subject of amendment** |
|---|---|
| IFRS 2 *Share-based Payment* | 1. Definition of vesting condition |
| IFRS 3 *Business Combinations* | 2. Accounting for contingent consideration in a business combination |
| IFRS 8 *Operating Segments* | 3. Aggregation of operating segments |
| | 4. Reconciliation of the total of the reportable segments' assets to the entity's assets |
| IFRS 13 *Fair Value Measurement* | 5. Short-term receivables and payables |
| IAS 16 *Property, Plant and Equipment* | 6. Revaluation method—proportionate restatement of accumulated depreciation |
| IAS 38 *Intangible Assets* | 7. Revaluation method—proportionate restatement of accumulated depreciation |
| IAS 24 *Related Party Disclosures* | 8. Key management personnel |

## IFRS 2 *Share-based Payment*

### *Amendment 1: Definition of vesting condition*

A2. The ED proposed to clarify the definition of a 'vesting condition' by separately defining a 'performance condition' and a 'service condition' in Appendix A of IFRS 2 *Share-based Payment*.

A3. In particular, the ED proposed to clarify that:

(a) a performance target may relate either to the performance of the entity as a whole or to some part of the entity, such as a division or an individual employee;

(b) a performance target is defined by reference to the entity's own operations (or activities) or the price (or value) of its equity instruments (including shares and share options);

(c) in order to constitute a performance condition, any performance target needs to have an explicit or implicit service requirement for at least the period during which the performance target is being measured (refer to an update on this issue in paragraph A7 below); and

(d) if the employee fails to complete a specified service period, the employee fails to satisfy a service condition, regardless of what the reason for that failure is. The accounting consequence is that the compensation expense would need to be reversed if an employee fails to complete a specified service period.

A4. At its meeting in February 2013, the IASB tentatively decided to finalise the proposed amendment subject to some editorial comments, thereby following the recommendation from the Interpretations Committee.

A5. Furthermore, the IASB tentatively decided to follow a further recommendation of the Interpretations Committee to clarify that:

(a) a performance target can be set by reference to the price (or value) of another entity included within the group;

(b) a performance target that refers to a longer period than the required service period does not constitute a performance condition (refer to an update on this decision in paragraph A7 below);

(c) the specified period of service that the counterparty is required to complete can be either implicit or explicit;

(d) management does not need to prove the influence of the employee upon the performance target;

(e) a share market index target is a non-vesting condition;

(f) the definition of a ‘performance condition’ should indicate that it includes a ‘market condition’; and

(g) the employee’s failure to complete a required service period is considered to be a situation in which equity instruments do not vest because of failure to satisfy a service condition.

A6. The IASB also followed a final recommendation from the Interpretations Committee and tentatively decided to modify the transition provisions for this amendment and to require an entity to apply such an amendment on a prospective basis in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

A7. Furthermore, at its meeting in June 2013, the IASB tentatively decided to allow the start of the assessment period for the performance target to precede the service period provided that:

(a) the assessment period for the performance target substantially coincides with the service period; and

(b) the assessment period for the performance target does not extend beyond the end of the service period.

### *Annual Improvements criteria*

A8. We have assessed the issue against the Annual Improvements criteria:

| An annual improvement should (6.11, 6.12): | |
|---|---|
| • Replace unclear wording;<br>• Provide missing guidance; or<br>• Correct minor unintended consequences, oversights or conflict. | **Yes.** There is a need for clarification of the definitions relating to vesting conditions. |
| Not change an existing principle or propose a new principle | **Yes.** The issue can be sufficiently tackled by the clarification of current principles in IFRS 2 that will provide increased clarity on the issue for which diversity currently exists. |
| Not be so fundamental that the IASB will have to meet several times to conclude (6.14) | **Yes.** The issue is sufficiently narrow, has a well-defined purpose, and significant outreach has been performed to ensure that the proposed changes have been both considered sufficiently and identified. |

A9. In our opinion, the issue satisfies the Annual Improvements criteria.

*Summary of meetings when the issue was discussed*

A10. The Interpretations Committee discussed this issue at its meetings in July and November 2009, January, March, May, July, September and November 2010 and January 2013.

A11. The IASB discussed the issue at its meetings in September 2010, September 2011, February 2013 and June 2013.

A12. In January 2010, the Interpretations Committee decided to add to its agenda a request to clarify the basis on which vesting conditions, especially performance conditions, can be distinguished from non-vesting conditions.

A13. After completing its discussions on the technical issues included in this project in its meeting in September 2010, the Interpretations Committee asked the IASB for its recommendation on how to proceed with the project.

A14. At its meeting in September 2010, the IASB decided to reduce the scope of the project and asked the Interpretations Committee to consider which of the issues addressed in the project could be addressed within the Annual Improvements project. The Interpretations Committee identified the issues that were included in the ED.

## IFRS 3 *Business Combinations*

### *Amendment 2: Accounting for contingent consideration in a business combination*

A15. The ED proposed the following amendment to IFRS 3 *Business Combinations* and the consequential amendment to IFRS 9 *Financial Instruments* to clarify certain aspects of accounting for contingent consideration in a business combination:

<u>Classification of contingent consideration in a business combination</u>

A16. The IASB thought that an entity will only need to consider whether contingent consideration is a liability or an equity instrument when the contingent consideration is a financial instrument. Consequently, the IASB proposed to clarify that contingent consideration is assessed as either a liability or an equity instrument only on the basis of the requirements of IAS 32

*Financial Instruments: Presentation*. Currently, IFRS 3 paragraph 40 refers not only to IAS 32, but also to “other applicable IFRSs” in determining whether contingent consideration is classified as a liability or as an equity instrument. The IASB proposed to clarify this by deleting the reference to “other applicable IFRSs”.

Subsequent measurement of contingent consideration in a business combination

A17. The ED proposed to clarify that contingent consideration that is not classified as an equity instrument is subsequently measured at fair value, with the corresponding gain or loss being recognised in profit or loss unless the recognition of the resulting gain or loss is required in other comprehensive income in accordance with IFRS 9. Currently, paragraph 58 of IFRS 3 requires the subsequent measurement of contingent consideration at fair value, but refers to Standards in which fair value is not necessarily the subsequent measurement basis. The ED proposed to clarify this contradiction by:

(a) deleting the reference to “IAS 37 or other IFRSs as appropriate”; and

(b) amending the classification requirements of IFRS 9 to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes in fair value being presented in either profit or loss or other comprehensive income depending on the requirements of IFRS 9.

A18. At its meetings in May 2013, the IASB tentatively decided to finalise a revised proposed amendment. The IASB tentatively agreed with the following recommendations of the Interpretations Committee that:

(a) the wording of the requirement on the subsequent measurement of non-equity contingent consideration in paragraph 58(b) of IFRS 3 should be amended to ensure that it does not imply that contingent consideration can give rise only to a financial instrument;

(b) the amendment proposed in the ED to paragraph 4.1.2 of IFRS 9 to ensure that a contingent consideration financial asset cannot be measured at amortised cost should not be made. It is not necessary because a contingent consideration financial asset would not meet the requirements to be measured at amortised cost; and

(c) all contingent consideration liabilities should be required to be subsequently measured at fair value through profit or loss.

A19. The IASB also tentatively decided that:

(a) all non-equity contingent consideration in a business combination should be subsequently measured at fair value through profit or loss; and

(b) equivalent consequential amendments should also be made to IAS 39 *Financial Instruments: Recognition and Measurement*.

### *Annual Improvements criteria*

A20. We have assessed the issue against the Annual Improvements criteria:

| An annual improvement should (6.11, 6.12): | |
|---|---|
| • Replace unclear wording;<br>• Provide missing guidance; or<br>• Correct minor unintended consequences, oversights or conflict. | **Yes.** The correction retains the current measurement principle in IFRS 3 but removes conflicts with other Standards and makes clearer how the measurement requirements should be applied. |
| Not change an existing principle or propose a new principle | **Yes.** The correction can be done by clarifying the current principles in IFRS 3. |
| Not be so fundamental that the IASB will have to meet several times to conclude (6.14) | **Yes.** The change is limited to contingent consideration that arises from business combinations, and it therefore has a narrow and well-defined purpose. |

A21. In our opinion, the issue satisfies the Annual Improvements criteria.

### *Summary of meetings when the issue was discussed*

A22. The Interpretations Committee discussed this issue at its meetings in January and July 2010 and January and March 2013.

A23. The IASB discussed the issue at its meetings in February and October 2010, October 2011 and May 2013.

## IFRS 8 *Operating Segments*

### *Amendment 3: Aggregation of operating segments*

A24. The ED proposed amending paragraph 22 of IFRS 8 *Operating Segments* to require the disclosure of a description of both the operating segments that have been aggregated and the economic indicators that have been assessed by management when concluding that the operating segments have "similar economic characteristics" in accordance with paragraph 12 of IFRS 8.

A25. At its meeting in February 2013, the IASB tentatively decided to finalise the proposed amendment, following a recommendation from the Interpretations Committee.

A26. Having considered the comments received, however, the IASB tentatively decided to:

(a) eliminate the examples of economic indicators in the proposed new paragraph to avoid confusion; and

(b) make some further minor edits to make the proposed amendment clearer.

### *Annual Improvements criteria*

A27. We have assessed the issue against the Annual Improvements criteria:

An annual improvement should (6.11, 6.12):

| | |
|---|---|
| • Replace unclear wording;<br>• Provide missing guidance; or<br>• Correct minor unintended consequences, oversights or conflict. | **Yes.** There is a need for clarification of the requirements in paragraph 22 of IFRS 8 for the application of the aggregation criteria. We think that the amendment will provide increased clarity where diversity currently exists, while not significantly affecting the primary accounting treatment that exists in practice for this issue. |
| Not change an existing principle or propose a new principle | **Yes.** In our view the amendment is not a new requirement because the additional disclosure in paragraph 22 of IFRS 8 is specifying the type of information that should be included where operating segments have been aggregated, and this is part of the information already required by paragraph 22(a) of IFRS 8. |

An annual improvement should (6.11, 6.12):

| | |
|---|---|
| Not be so fundamental that the IASB will have to meet several times to conclude (6.14) | **Yes.** The issue will be sufficiently tackled by adding a disclosure requirement in paragraph 22(c) of IFRS 8. |

A28. In our opinion, the issue satisfies the Annual Improvements criteria.

*Summary of meetings when the issue was discussed*

A29. The Interpretations Committee discussed this issue at its meetings in July and September 2011 and November 2012.

A30. The IASB discussed the issue at its meetings in September and November 2011 and February 2013.

## IFRS 8 *Operating Segments*

### *Amendment 4: Reconciliation of the total of the reportable segments' assets to the entity's assets*

A31. The ED proposed to amend paragraph 28(c) of IFRS 8 to clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed, if that amount is regularly provided to the chief operating decision maker, in line with the requirements in paragraph 23 of IFRS 8.

A32. At its meeting in February 2013, the IASB tentatively decided to finalise the proposed amendment, thereby following a recommendation from the Interpretations Committee.

*Annual Improvements criteria*

A33. We have assessed the issue against the Annual Improvements criteria:

An annual improvement should (6.11, 6.12):

| | |
|---|---|
| • Replace unclear wording;<br>• Provide missing guidance; or<br>• Correct minor unintended consequences, oversights or conflict. | **Yes.** There is a need for clarification of the requirements in paragraph 28(c) for the disclosure of the reconciliation of the total of the reportable segments' assets to the entity's assets. |

An annual improvement should (6.11, 6.12):

| | |
|---|---|
| Not change an existing principle or propose a new principle | **Yes.** We note that this amendment will improve Standards by addressing an oversight or relatively minor unintended consequence of the existing requirements of Standards. |
| Not be so fundamental that the IASB will have to meet several times to conclude (6.14) | **Yes.** The issue can be sufficiently tackled by clarification of the current wording in paragraph 28(c) of IFRS 8, which will provide increased clarity where diversity currently exists, while not significantly affecting the primary accounting treatment that exists in practice for this issue. |

A34. In our opinion, the issue satisfies the Annual Improvements criteria.

*Summary of meetings when the issue was discussed*

A35. The Interpretations Committee discussed this issue at its meetings in May 2011 and November 2012.

A36. The IASB discussed the issue at its meetings in September 2011 and February 2013.

## IFRS 13 *Fair Value Measurement*

### *Amendment 5: Short-term receivables and payables*

A37. Paragraph B5.4.12 of IFRS 9 *Financial Instruments* and paragraph AG79 of IAS 39 *Financial Instruments: Recognition and Measurement* allowed entities to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting when the effect of not discounting is immaterial. Those paragraphs in IFRS 9 and IAS 39 were deleted as a consequence of the IASB issuing IFRS 13 *Fair Value Measurement*.

A38. The ED proposed to amend the Basis for Conclusions on IFRS 13 to explain the deletion of B5.4.12 of IFRS 9 and paragraph AG79 of IAS 39. In particular, the IASB proposed to clarify that, when making those amendments to IFRS 9 and IAS 39, it did not intend to remove the ability of an entity to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial. Instead, the IASB deleted those paragraphs in IFRS 9 and IAS 39 because IFRS 13 contains guidance for using present value techniques to measure fair value and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* addresses materiality in applying accounting policies.

A39. At its meeting in February 2013, the IASB tentatively decided to finalise the proposed amendment, following, subject to only minor drafting changes, a recommendation from the Interpretations Committee.

### *Annual Improvements criteria*

A40. We have assessed the issue against the Annual Improvements criteria:

| An annual improvement should (6.11, 6.12): | |
|---|---|
| • Replace unclear wording;<br>• Provide missing guidance; or<br>• Correct minor unintended consequences, oversights or conflict. | **Yes.** The amendment clarifies that discounting of short-term receivables and payables is not required if the effect of not discounting is immaterial. Adding an explanatory paragraph to the Basis for Conclusions on IFRS 13 clarifies that the IASB did not intend to change the existing measurement requirements. |
| Not change an existing principle or propose a new principle | **Yes.** The amendment does not change an existing principle or propose a new principle. Instead, the amendment to the Basis for Conclusions on IFRS 13 explains why the IASB made a consequential amendment to IFRS 9 and IAS 39. |
| Not be so fundamental that the IASB will have to meet several times to conclude (6.14) | **Yes.** The amendment to the Basis for Conclusions on IFRS 13 explains why the IASB made a consequential amendment to IFRS 9 and IAS 39. This is not a contentious matter and the IASB did not have to meet several times to reach a conclusion on it. |

A41. In our opinion, the issue satisfies the Annual Improvements criteria.

### *Summary of meetings when the issue was discussed*

A42. The Interpretations Committee discussed this issue at its meeting in November 2012.

A43. The IASB discussed the issue at its meetings in October 2011 and February 2013.

## IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*

### *Amendments 6 and 7: Revaluation method—proportionate restatement of accumulated depreciation*

A44. The ED proposed to clarify the requirements for the revaluation method in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* to address concerns about the computation of the accumulated depreciation at the date of the revaluation. The proposed changes were that:

(a) the determination of the accumulated depreciation does not depend on the selection of the valuation technique; and

(b) the accumulated depreciation is computed as the difference between the gross and the net carrying amounts. The restatement of the accumulated depreciation is not always proportionate to the change in the gross carrying amount of the asset.

A45. At its meeting in April 2013, the IASB tentatively decided to finalise the proposed amendment subject to some editorial comments, thereby following the recommendation from the Interpretations Committee.

A46. The IASB also followed a further recommendation of the Interpretations Committee and tentatively decided to modify the transition provisions for this amendment from retrospective to prospective application.

#### *Annual Improvements criteria*

A47. We have assessed below the issue against the Annual Improvements criteria:

An annual improvement should (6.11, 6.12):

| | |
|---|---|
| • Replace unclear wording;<br>• Provide missing guidance; or<br>• Correct minor unintended consequences, oversights or conflict. | **Yes.** The amendment clarifies the determination of the accumulated depreciation when an item of Property, Plant and Equipment (PPE) or an intangible asset is revalued in applying the revaluation method. |

| An annual improvement should (6.11, 6.12): | |
|---|---|
| Not change an existing principle or propose a new principle | **Yes.** The wording of paragraphs 35 of IAS 16 and 80 of IAS 38 is amended to better reflect the application of the two approaches specified in these paragraphs. |
| Not be so fundamental that the IASB will have to meet several times to conclude (6.14) | **Yes.** The improvement is for specific situations that are addressed by paragraph 35(a) of IAS 16. We think that these situations are well-defined and sufficiently narrow in scope. We note that paragraph 80 of IAS 38 has the same requirements and that an amendment to paragraph 35(a) of IAS 16 would entail the same amendment to paragraph 80 of IAS 38. |

A48. In our opinion, the issue satisfies the Annual Improvements criteria.

*Summary of meetings when the issue was discussed*

A49. The Interpretations Committee discussed this issue at its meetings in May 2011 and January 2013.

A50. The IASB discussed the issue at its meetings in September 2011 and April 2013.

## IAS 24 *Related Party Disclosures*

### *Amendment 8: Key management personnel*

A51. The ED proposed amendments to IAS 24 about how the principles in IAS 24 should be applied for related party transactions that take place when key management personnel (KMP) services are provided by a management entity that is not otherwise a related party of the reporting entity. The changes proposed in the ED were:

(a) the definition of a 'related party' is extended to include management entities;

(b) the disclosure requirements of paragraph 18 of IAS 24 are extended to require the separate disclosure of transactions for the provisions of key management personnel services; and

(c) the key management personnel compensation that is provided by a management entity to its own employees is excluded from the disclosure requirements of paragraph 17 of IAS 24 to prevent duplication.

A52. At its meeting in February 2013, the IASB tentatively decided to finalise the proposed amendment, subject to drafting changes, following a recommendation from the Interpretations Committee.

*Annual Improvements criteria*

A53. We have assessed below the issue against the Annual Improvements criteria:

| An annual improvement should (6.11, 6.12): | |
|---|---|
| • Replace unclear wording;<br>• Provide missing guidance; or<br>• Correct minor unintended consequences, oversights or conflict. | **Yes.** The amendment makes clear the appropriate disclosure relating to KMP services in the situation described. |
| Not change an existing principle or propose a new principle | **Yes.** The change does not introduce a new principle or amend an existing principle. It provides clarification in accordance with the existing principles of IAS 24. |
| Not be so fundamental that the IASB will have to meet several times to conclude (6.14) | **Yes.** The change is limited to disclosures in well-defined situations in which the reporting entity hires KMP services from a separate entity. |

A54. In our opinion, the issue satisfies the Annual Improvements criteria.

*Summary of meetings when the issue was discussed*

A55. The Interpretations Committee discussed this issue at its meetings in September 2010 and January 2013.

A56. The IASB discussed the issue at its meetings in October 2010, September and November 2011 and March 2013.

# Appendix B—Confirmation of Due Process Steps followed in the Finalisation of a Standard, Practice Guidance or *Conceptual Framework* chapter

General IASB requirements: The development of a Standard is carried out during IASB meetings, when the IASB considers the comments received on the Exposure Draft (ED). The IASB will consider whether to expose its revisions for public comment, for example, a second ED. The IASB needs to consider transitional provisions and the effective date (Due Process Handbook, paragraphs 6.19–6.39).

Due Process Oversight Committee (DPOC) objective: To satisfy the DPOC that the consultation process has been sufficient for the IASB to justify its decisions. The DPOC needs to be assured that the IASB has appropriately considered views of stakeholders before concluding its deliberations, including the scope of the Standard and its technical content. The DPOC must also be assured that the IASB has appropriately considered the need to re-expose changes before finalising a Standard. The DPOC responds to the comments received on the IASB due process in developing a Standard.

| ***Step*** | ***Required/ Optional*** | ***Actions*** |
|---|---|---|
| **Consideration of information gathered during consultation** | | |
| **The IASB posts all of the comment letters that are received in relation to the ED on the project pages.** | Required if request issued | All comment letters that the IASB has received on the ED were posted on the project webpages. |
| **IASB meetings are held in public, with papers being available for observers. All decisions are made in public sessions.** | Required | The comment letter analyses prepared by the staff were discussed by the Interpretations Committee on the basis of publicly available Agenda Papers in the meetings of the Interpretations Committee in:<br>• November 2012;<br>• January 2013; and<br>• March 2013.<br>In the meetings, the Interpretations Committee developed recommendations on how to proceed with the proposals for the IASB.<br>The comment letter analyses for the proposed amendments were discussed by the IASB on the basis of publicly available Agenda Papers and approved for finalisation as part of the 2010–2012 Cycle of the Annual Improvements Project in its meetings in:<br>• February 2013;<br>• March 2013;<br>• April 2013; and<br>• May 2013.<br>At its meeting in June 2013, the IASB discussed and agreed a sweep issue that had been raised during the drafting of the final amendment to IFRS 2 Share-based Payment.<br>The project webpage was updated by the staff after every Interpretations Committee meeting or |

| *Step* | *Required/ Optional* | *Actions* |
|---|---|---|
| | | IASB meeting in which the following were discussed:<br>• issues included in the ED;<br>• their comment letter analysis;<br>• the recommendation of the Interpretations Committee on how to proceed with the issues; and<br>• the approval by the IASB for finalisation.<br>The results of the discussions of the Interpretations Committee and the IASB are also summarised in the *IFRS IC Update* and the *IASB Update* for each meeting. |
| **Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.** | Required | Annual Improvements are, by definition, clarifying or correcting in nature, well-defined and sufficiently narrow in scope so that the consequences of the proposed changes have been considered.<br>The consequences of the proposed changes have been considered for each amendment as part of the IASB's discussions, but because of the narrow scope and the expected limited consequences of the amendments, an Effect Analysis is not necessary. |
| **Finalisation** | | |
| **Due process steps are reviewed by the IASB.** | Required | This step will be met by this staff paper. |
| **Need for re-exposure of a Standard is considered.** | Required | Analysis of the need to re-expose is included in the main body of this paper. |
| **The IASB sets an effective date for the Standard, considering the need for effective implementation, generally providing at least a year.** | Required | We expect to publish the final amendments in Q4 of 2013. Because Annual Improvements are, by definition, clarifying or correcting in nature, well-defined and sufficiently narrow in scope, we think that an effective date of 1 July 2014 gives:<br>• jurisdictions sufficient time to incorporate the new requirements into their legal systems; and<br>• preparers sufficient time to prepare for the new requirements (see paragraph 6.35 of the updated *Due Process Handbook*). |
| **Drafting** | | |
| **Drafting quality assurance steps are adequate.** | Required | The Translations team will review the pre-ballot draft. |
| **Drafting quality** | Required | The XBRL team will review the pre-ballot draft. |

| ***Step*** | ***Required/ Optional*** | ***Actions*** |
|---|---|---|
| **assurance steps are adequate.** | | |
| **Drafting quality assurance steps are adequate.** | Optional | The Editorial team has reviewed the draft amendments in the staff papers on the issues that have been presented at Interpretations Committee meetings or IASB meetings.<br>The Editorial team will review the drafts during the ballot process.<br>We will perform an editorial review of the pre-ballot draft with external parties. |
| **Publication** | | |
| **Press release to announce final Standard.** | Required | A press release will be published with the final amendments and made available to the DPOC together with a summary of the media coverage. |
| **A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the IASB has responded to the comments received.** | Required | A Feedback Statement is not needed because Annual Improvements are, by definition, clarifying or correcting in nature, well-defined and sufficiently narrow in scope. |
| **Standard is published.** | Required | Final amendments will be made available on eIFRS on publication date. The DPOC will be informed of the official release. |