STAFF PAPER

IASB Meeting **June 2013**

Project	**Annual Improvements to IFRSs—2011-2013 Cycle**
Paper topic	Summary of due process followed

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Introduction

1. The IASB published its Exposure Draft (ED) *Annual Improvements to IFRSs 2011–2013 Cycle* ('the ED') in November 2012, which proposed a total of four amendments to IFRSs. The comment period ended on 18 February 2013. The IASB received 65 comment letters.

2. At its meeting in May 2013, the IFRS Interpretations Committee ('the Interpretations Committee') analysed the comments received and recommended that the IASB should finalise all the four proposed amendments.

3. The IASB will discuss comment letter analyses and recommendations from the Interpretations Committee at its June 2013 meeting (see Agenda Paper 12A for this IASB meeting).

4. On the basis of the recommendation of the Interpretations Committee, the 2011–2013 Cycle of Annual Improvements to IFRSs would include the following four amendments ('the final amendments'):

    (a) IFRS 1 *First-time Adoption of International Financial Reporting Standards*—Meaning of effective IFRSs;

    (b) IFRS 3 *Business Combinations*—Scope exception for joint ventures;

    (c) IFRS 13 *Fair Value Measurement*—Scope of paragraph 52 (portfolio exception); and

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(d) IAS 40 *Investment Property*—clarifying the interrelationship of IFRS 3 with IAS 40 when classifying property as investment property or owner-occupied property.

5. After obtaining a IASB decision on the finalisation of these issues, we want to start the drafting and balloting of the final amendments.

6. 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

7. On the basis of the recommendations of the Interpretations Committee the 2011–2013 Cycle of Annual Improvements to IFRSs would contain four amendments affecting three Standards and the Basis for Conclusions of IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

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

9. 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 paper.

Annual Improvements criteria

10. 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*).

11. The updated assessment of the amendments against the Annual Improvements criteria is included in Appendix A of this staff paper. In our opinion, subject to the IASB discussions at this meeting, the final amendments satisfy the Annual Improvements criteria.

Finalisation or re-exposure

12. 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.

13. 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.

14. Taking into consideration the re-exposure criteria in paragraphs 6.25–6.29 of the updated *Due Process Handbook*, we think, subject to IASB discussions at this meeting, that all the four final amendments listed in paragraph 4 of this paper should be finalised without re-exposure.

Effective date

15. 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.

16. 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.

17. 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.

18. 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.

Due process steps

19. 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 2011–2013 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 2011–2013 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 2011–2013 Cycle of Annual Improvements to IFRSs are set out in the following table.

IFRS	**Subject of amendment**
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	Meaning of effective IFRSs.
IFRS 3 *Business Combinations*	Scope exceptions for joint ventures.
IFRS 13 *Fair Value Measurement*	Scope of paragraph 52 (portfolio exception).
IAS 40 *Investment Property*	Clarifying the interrelationship of IFRS 3 *Business Combinations* and IAS 40 when classifying property as investment property or owner-occupied property.

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

Amendment 1: Meaning of effective IFRSs.

A2. The ED includes a proposal to amend the Basis for Conclusions of IFRS 1 to clarify that an entity has the choice between applying an old Standard that is still effective or applying a new one. If a new Standard is applied early in the entity's first IFRS financial statements that entity is required to apply the same version of that Standard throughout the periods covered by the entity's first IFRS financial statements, unless IFRS 1 grants specific exemptions or exceptions.

A3. At its meeting in May 2013, the Interpretations Committee recommended to the IASB that it should finalise the proposed amendment. The Interpretations Committee recommended to the IASB that it should add a footnote to paragraph BC11 (instead of modifying it, as proposed in the ED) and to add paragraph BC11A (as proposed in the ED).

A4. The IASB will discuss the Interpretations Committee's recommendations at its June 2013 meeting (see Agenda Paper 12A for this IASB meeting).

Annual Improvements criteria

A5. We have reassessed the issue against the Annual Improvements criteria:

An annual improvement should (6.11, 6.12):	
• Replace unclear wording; • Provide missing guidance; or • Correct minor unintended consequences, oversights or conflict.	**Yes.** There is a perceived discrepancy between paragraphs 7 and BC11 of IFRS 1
Not change an existing principle or propose a new principle	**Yes.** The amendment only clarifies the Basis for Conclusions, the Standard is already clear.
Not be so fundamental that the IASB will have to meet several times to conclude (6.14)	**Yes.** The issue is sufficiently narrow.

A6. In our opinion, the issue satisfies the Annual Improvements criteria.

Summary of meetings when the issue was discussed

A7. The Interpretations Committee discussed this issue at its meetings in May 2012 and May 2013.

A8. The IASB discussed the issue at its meeting in June 2012 and it will discuss this issue at its meeting in June 2013.

IFRS 3 *Business Combinations*

Amendment 2: Scope exceptions for joint ventures

A9. The ED includes a proposal to amend paragraph 2(a) of IFRS 3:

(a) to exclude the formation of all types of joint arrangements as defined in IFRS 11 (ie joint ventures and joint operations) from the scope of IFRS 3; and

(b) to clarify that the scope exception only applies to the accounting in the financial statements of the joint arrangement itself.

A10. At its meeting in May 2013, the Interpretations Committee recommended to the IASB that it should finalise the proposed amendment. To be consistent with prospective initial application of IFRS 3, the Interpretations Committee recommended that the IASB should:

(a) modify the wording of paragraph BC3 to clarify that the amendment should not be interpreted to mean that IFRS 3 shall be applied in the investors' financial statements when the joint arrangement is established, because the acquisition of an interest in a joint arrangement on its formation is not within the scope of IFRS 3; and

(b) modify the transitional provisions to require that the amendment should be applied prospectively (instead of retrospectively as proposed in the ED).

A11. The IASB will discuss the Interpretations Committee's recommendations at its June 2013 meeting (see Agenda Paper 12A for this IASB meeting).

Annual Improvements criteria

A12. We have assessed the issue against the Annual Improvements criteria:

An annual improvement should (6.11, 6.12):	
• Replace unclear wording; • Provide missing guidance; or • Correct minor unintended consequences, oversights or conflict.	**Yes.** The amendment removes the uncertainties caused by the unclear wording of paragraph 2(a) of IFRS 3.
Not change an existing principle or propose a new principle	**Yes.** The amendment only clarifies the scope exclusion in paragraph 2(a) of IFRS 3.
Not be so fundamental that the IASB will have to meet several times to conclude (6.14)	**Yes.** The clarification has a narrow and well-defined purpose.

A13. In our opinion, the issue satisfies the Annual Improvements criteria.

Summary of meetings when the issue was discussed

A14. The Interpretations Committee discussed this issue at its meetings in November 2011 and May 2013.

A15. The IASB discussed the issue at its meeting in February 2012 and it will discuss this issue at its meeting in June 2013.

IFRS 13 *Fair Value Measurement*

Amendment 3: Scope of paragraph 52 (portfolio exception)

A16. The ED includes a proposal to amend paragraph 52 of IFRS 13 to clarify that the portfolio exception applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32.

A17. At its meeting in May 2013 the Interpretations Committee recommended to the IASB that it should finalise the proposed amendment. To be consistent with prospective initial application of IFRS 13, the Interpretations Committee recommended the IASB to require that the amendment should be applied prospectively from the beginning of the earliest period presented for which IFRS 13 is applied

A18. The IASB will discuss the Interpretations Committee's recommendations at its June 2013 meeting (see Agenda Paper 12A for this IASB meeting).

Annual Improvements criteria

A19. We have assessed the issue against the Annual Improvements criteria:

An annual improvement should (6.11, 6.12):	
• Replace unclear wording; • Provide missing guidance; or • Correct minor unintended consequences, oversights or conflict.	**Yes.** The amendment clarifies the IASB's intentions and removes the uncertainties caused by the wording of paragraph 52 of IFRS 13.
Not change an existing principle or propose a new principle	**Yes.** The amendment is only a clarification of the scope of the portfolio exception.
Not be so fundamental that the IASB will have to meet several times to conclude (6.14)	**Yes.** The clarification has a narrow and well-defined purpose.

A20. In our opinion, the issue satisfies the Annual Improvements criteria.

Summary of meetings when the issue was discussed

A21. The Interpretations Committee discussed this issue at its meeting in May 2013.

A22. The IASB discussed the issue at its meeting in September 2012 and it will discuss this issue at its meeting in June 2013.

IAS 40 *Investment Property*

Amendment 4: Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

A23. The ED includes a proposal for an amendment to IAS 40 that would clarify that:

(a) judgement is needed to determine whether the acquisition of investment property is the acquisition of a single asset or of a group of assets, or is a business combination within the scope of IFRS 3; and

(b) this judgement is not based on paragraphs 7-14 of IAS 40 but on the guidance in IFRS 3. The guidance in paragraphs 7-14 of IAS 40 relates only to the judgement needed to distinguish an investment property from an owner-occupied property.

A24. At its meeting in May 2013, the Interpretations Committee recommended to the IASB that it should finalise the proposed amendment. To address respondents' concern, the Interpretations Committee recommended to the IASB that it should confirm that the amendment should be applied prospectively. However, retrospective application of this amendment should be permitted if, and only if, the information needed to apply the amendment retrospectively is available to the entity.

A25. The IASB will discuss the Interpretations Committee's recommendations at its June 2013 meeting (see Agenda Paper 12A for this IASB meeting).

Annual Improvements criteria

A26. We have assessed the issue against the Annual Improvements criteria:

An annual improvement should (6.11, 6.12):	
• Replace unclear wording; • Provide missing guidance; or • Correct minor unintended consequences, oversights or conflict.	**Yes.** The amendment clarifies that IFRS 3 and IAS 40 are not mutually exclusive.

Not change an existing principle or propose a new principle	**Yes.** The amendment is only a clarification of the interrelationship of IFRS 3 with IAS 40 when classifying property as investment property or owner-occupied property.
Not be so fundamental that the IASB will have to meet several times to conclude (6.14)	**Yes.** The clarification has a narrow and well-defined purpose.

A27. In our opinion, the issue satisfies the Annual Improvements criteria.

Summary of meetings when the issue was discussed

A28. The Interpretations Committee discussed this issue at its meetings in November 2011 and May 2013.

A29. The IASB discussed the issue at its meeting in February 2012 and it will discuss this issue at its meeting in June 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 May 2013 Interpretations Committee meeting. In the meeting, the Interpretations Committee recommended that the IASB should finalise all the four proposed amendments. The IASB will discuss comment letter analyses and recommendations from the Interpretations Committee at its June 2013 meeting (see Agenda Paper 12A for this IASB meeting). The project webpage was updated by the staff after every Interpretations Committee meeting or IASB meeting. The project webpage will also be updated after the June 2013 IASB meeting. 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	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. 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

Step	*Required/ Optional*	*Actions*
ongoing associated costs.		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: • jurisdictions sufficient time to incorporate the new requirements into their legal systems; and • 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 assurance steps are adequate.	Required	The XBRL team will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Optional	The Editorial team will review the drafts during the ballot process. 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	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.

Step	*Required/ Optional*	*Actions*
provides high level executive summaries of the Standard and explains how the IASB has responded to the comments received.		
Standard is published.	Required	Final amendments will be made available on eIFRS on publication date. The DPOC will be informed of the official release.