

STAFF PAPER

July 2016

REG IASB Meeting

Project	Annual Improvements to IFRS 2015-2017 Cycle		
Paper topic	Due Process Steps		
CONTACT(S)	Craig Smith	csmith@ifrs.org	+44 (0) 20 7246 6462

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board® (“the Board”) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in *IASB Update*.

Introduction

1. The Board has tentatively decided to include two proposed amendments in the Exposure Draft *Annual Improvements to IFRS 2015–2017 Cycle* (the Exposure Draft). These issues are as follows:
 - (a) IAS 12 *Income Taxes*: clarification of the presentation requirements for the income tax consequences of payments on financial instruments classified as equity. The Board tentatively approved this proposed amendment at its June 2016 meeting.
 - (b) IAS 23 *Borrowing Costs*: clarification of whether an entity transfers specific borrowings to the general borrowings pool once the construction of a qualifying asset is complete. The Board tentatively approved this proposed amendment at its October 2015 meeting.

Objective and structure of the paper

2. The purpose of this paper is therefore to:
 - (a) provide the Board with a brief summary of the proposed amendments;
 - (b) ask Board members whether they agree with the proposed comment period;
 - (c) ask Board members whether they intend to dissent to any of the proposed amendments; and

- (d) explain the steps in the *Due Process Handbook* that the Board has taken in developing the proposed amendments (see **Appendix A**), and ask the Board to confirm that it has complied with the due process requirements.

Summary of the proposed amendments

3. The proposed amendment to IAS 12 clarifies the applicability of the requirements in paragraph 52B of IAS 12. The proposed amendment would clarify that paragraph 52B is applicable to the income tax consequences of dividends in all circumstances—the applicability of the presentation requirements in paragraph 52B is not limited to the circumstances described in paragraphs 52A.
4. The proposed amendment to IAS 23 clarifies the wording of paragraph 14 of IAS 23. More specifically, it addresses how an entity calculates the capitalisation rate to be applied to expenditures it incurs on a qualifying asset that has been funded from the general borrowings of the entity. The proposed amendment would clarify that an entity includes, in the calculation of the capitalisation rate, the weighted average of all borrowing costs other than those that have been capitalised to a qualifying asset applying the requirements of paragraph 12 of IAS 23. Consequently, an entity would transfer a specific borrowing to general borrowings once the construction of that specific qualifying asset is complete.
5. The Board and the IFRS Interpretations Committee (the Interpretations Committee) discussed the issues on the following dates:

Standard	Proposed Amendment	Interpretations Committee meeting(s)/Agenda Papers ref	Board meeting(s)/Agenda Paper ref
IAS 12	Accounting for income tax consequences of payments on financial instruments classified as equity	November 2015 - AP 8 March 2016 - AP 5	June 2016 - AP 12A
IAS 23	Borrowing costs on completed qualifying assets	May 2015 – AP 9 July 2015 - AP 7	October 2015 - AP 12A

Comment period

6. Paragraph 6.15 of the [Due Process Handbook](#) says that the Board ‘normally allows a minimum period of 90 days for comment on Annual Improvements’.
7. When publishing previous Exposure Drafts of Annual Improvements, the Board has generally allowed a period of 90 days for comment. In considering the proposed amendments to be included in this Exposure Drafts, we see no reason to conclude that a longer comment period would be required—ie we do not anticipate that the proposed amendments will be more contentious or complicated to understand than previous proposed Annual Improvements.
8. Nonetheless, the Feedback Statement on the Trustees Review of Structure and Effectiveness published in June 2016 said that the Board would endeavour to publish narrow-scope amendments together. Accordingly, we plan to publish this Exposure Draft, together with any other proposed narrow-scope amendments that are planned for publication at around the same time.
9. Consequently, although we recommend a comment period of no less than 90 days, the actual comment period may be longer for this Exposure Draft to ensure that there is a similar comment period for all Exposure Drafts published together.¹

Intention to dissent

10. In accordance with paragraph 6.9 of the *Due Process Handbook*, we are asking whether any Board member intends to dissent from the publication of any of the proposed amendments in the Exposure Draft.

Proposed timetable for balloting and publication

11. We expect the balloting process of the Exposure Draft to commence in September 2016. We expect the Exposure Draft to be ready for publication in the fourth quarter of 2016. However, the timing of publication will depend to some extent

¹ The Board typically allows 120 days for comment on proposed narrow-scope amendments that are not Annual Improvements.

on whether and how we publish the Exposure Draft together with other Exposure Drafts, as discussed in paragraph 8 of this paper.

Confirmation of due process steps

12. In **Appendix A** to this paper, we have summarised the due process steps we have taken in developing the proposed amendments. We note that the required due process steps applicable for the publication of the Exposure Draft have been completed.

Questions for the Board

1. **Comment period**—does the Board agree that the Exposure Draft should be published with a comment period of no less than 90 days?
2. **Dissent**—does any Board member intend to dissent to any of the proposed amendments to be included in the Exposure Draft?
3. **Permission to ballot**—is the Board satisfied that the due process requirements have been met to begin the balloting process for the proposed amendments to be included in the Exposure Draft?

Appendix A—Actions taken to meet the due process requirements

A1. The following table sets out the actions taken by the Board to meet the due process requirements.

Development and publication of Annual Improvements Exposure Drafts

<i>Step</i>	<i>Required/ optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
The Board and the Interpretations Committee's meetings are held in public, with papers being available for observers. All decisions are made in public session.	Required	Meetings held. Project website contains a full description with up-to-date information. Meeting papers posted in a timely fashion.	The Board discussed and approved the issues for inclusion in the 2015–2017 cycle of the Annual Improvements process at its October 2015 and June 2016 meetings. The project webpages have up to date information.
Finalisation			
Due process steps are reviewed by the Board.	Required	Summary of all the due process steps have been discussed by the Board before an Exposure Draft is published.	This step will be met by this Agenda Paper.
A check is performed to ensure that each amendment included in the package meets the Annual Improvements criteria.	Required		We prepared an assessment against the annual improvements criteria for each of the amendments included in the ED. This assessment was included in the following agenda papers: IAS 12 – June 2016 Board Meeting – Agenda Paper 12A IAS 23 – October 2015 Board meeting – Agenda Paper 12D
The Exposure Draft has an appropriate comment period.	Required	The period has been set by the Board. If outside the normal comment period, an explanation from the Board to the Due Process Oversight Committee (DPOC) has been provided, and the decision has been approved.	In accordance with the Due Process Handbook , we are recommending a comment period of no less than 90 days.
Drafting			

Drafting quality assurance steps are adequate.	Required	The Translations team has been included in the review process.	The Translations team will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Required	The XBRL team has been included in the review process.	The Taxonomy team will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Optional	<p>External reviewers have reviewed drafts for editorial review and the comments have been collected and considered by the Board.</p> <p>Drafts for editorial review have been made available to members of the International Forum of Accounting Standard Setters (IFASS) and the comments have been collected and considered by the Board.</p>	<p>The Editorial team will review drafts during the balloting process.</p> <p>We will perform an editorial review of the pre-ballot draft with some external parties.</p> <p>The pre-ballot draft will be made available to members of the International Forum of Accounting Standard-Setters (IFASS).</p>
Publication			
Exposure Draft Annual Improvements to IFRS 2015–2017 Cycle published.	Required	Exposure Draft posted on the Board website	The Exposure Draft will be made available on our website when published.
Press release to announce the publication of the of the Annual Improvements Exposure Draft package.	Required	<p>Press release published.</p> <p>Media coverage of the release.</p>	A press release will be published with the Exposure Draft.