

STAFF PAPER

June 2017

IASB Meeting

Project	Amendments to IAS 28 <i>Investments in Associates and Joint Ventures</i>—Long-term interests		
Paper topic	Transition requirements for first-time adopters and due process steps		
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Introduction

1. The Board published the Exposure Draft *Annual Improvements to IFRS Standards 2015–2017 Cycle* (the ED) in January 2017. One of the proposed amendments included in the ED relates to IAS 28 *Investments in Associates and Joint Ventures*. The proposal is to clarify that an entity is required to apply IFRS 9 *Financial Instruments*, including its impairment requirements, to interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests).
2. At its meeting in May 2017, the Board discussed feedback on the proposed amendments and tentatively decided to reaffirm those amendments. The Board also tentatively decided to:
 - (a) clarify in IAS 28 that:
 - (i) an entity applies the requirements in IFRS 9 to long-term interests before applying the loss allocation and impairment requirements in IAS 28; and
 - (ii) in applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that result from the application of IAS 28.

- (b) develop education material that includes an example illustrating how the requirements in IAS 28 and IFRS 9 interact with respect to long-term interests;
 - (c) set an effective date of 1 January 2019, with earlier application permitted;
 - (d) require retrospective application of the amendments applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to the transition requirements in (e) and (f) below;
 - (e) for entities that apply the amendments after they first apply IFRS 9, provide transition requirements similar to those in IFRS 9 regarding the classification and measurement of financial assets; and
 - (f) for insurers applying the temporary exemption from IFRS 9, reaffirm the proposed exemption from restating comparative information that reflects the amendments.
3. The objective of this paper is to discuss transition for first-time adopters and the due process steps for the amendments to IAS 28.

Structure of the paper

4. The paper is structured as follows:
- (a) transition requirements for first-time adopters;
 - (b) re-exposure;
 - (c) intention to dissent;
 - (d) proposed timetable for balloting and publication; and
 - (e) confirmation of due process steps.

Transition requirements for first-time adopters

5. At its meeting in May 2017, the Board tentatively decided to set an effective date of 1 January 2019 and require retrospective application of the amendments. In the light of these decisions, for entities that apply the amendments after they first

apply IFRS 9, the Board also tentatively decided to provide transition requirements similar to those in IFRS 9 regarding the classification and measurement of financial assets. The Board made this tentative decision for the following reasons:

- (a) If the amendments did not include any transition requirements for such entities, then those entities would apply the amendments retrospectively applying IAS 8. These entities, unlike those that apply the amendments at the same time that they first apply IFRS 9, would not be able to apply the transition requirements in IFRS 9. It may not be possible for an entity to apply the amendments retrospectively without the use of hindsight, particularly in the context of applying for the first time the classification and measurement requirements in IFRS 9 to long-term interests.
 - (b) In addition, when the Board developed the transition requirements in IFRS 9, it provided specific requirements to address scenarios when it would be impracticable to apply particular requirements retrospectively. For example, an entity is required to perform the business model assessment based on the facts and circumstances that exist at the date of initial application of IFRS 9.
6. We think first-time adopters would need similar transition requirements for the same or similar reasons as existing preparers as described in paragraph 5 of this paper.
 7. Having said that, we note that IFRS 1 *First-time Adoption of International Financial Reporting Standards* includes exceptions to retrospective application relating to the classification and measurement of financial assets (paragraphs B8–B8G of IFRS 1). These exceptions replicate the applicable transition requirements in IFRS 9 for the first-time adopter at its date of transition to IFRS Standards.
 8. Consequently, we do not think it is necessary to provide first-time adopters with any additional transition requirements other than those already included in IFRS 1 relating to IFRS 9.

Question 1 for the Board—transition requirements for first-time adopters

Does the Board agree with the staff recommendation not to provide first-time adopters with any additional transition requirements other than those already included in IFRS 1?

Re-exposure

9. We recommend that the Board does not re-expose the amendments to IAS 28. In making this recommendation, we have considered the requirements in paragraphs 6.25-6.29 of the [IFRS Foundation Due Process Handbook](#).
10. Overall, most respondents supported the proposed amendments and no substantial issues were identified that the Board had not previously considered. The Board tentatively decided to add clarifications as described in paragraph 2(a) of this paper. Those clarifications are based on, and consistent with, the proposed amendments in the ED. They do not, in our view, represent substantive changes.
11. In addition, in developing the proposed amendments, the Board had discussed these clarifications in paragraph 2(a) of this paper and had also discussed the illustrative example described in paragraph 2(b) of this paper.
12. Consequently, we think that there are no substantive changes being made on which respondents have not had the opportunity to comment.

Intention to dissent

13. In accordance with paragraph 6.23 of the *Due Process Handbook*, we are asking whether any Board member intends to dissent from issuing the amendments to IAS 28.

Proposed timetable for balloting and publication

14. We plan to start the balloting process in July 2017, and expect to issue the amendments to IAS 28 in September 2017.

Confirmation of due process steps

15. In Appendix A to this paper, we have summarised the due process steps taken in developing the amendments to IAS 28. We note that the required due process steps applicable for issuing a narrow-scope amendment have been completed.

Questions 2–4 for the Board

2. **Re-exposure**—does the Board agree with the staff recommendation not to re-expose the amendments to IAS 28?
3. **Dissent**—does any Board member intend to dissent from issuing the amendments to IAS 28?
4. **Permission to ballot**—is the Board satisfied that the due process requirements have been met and that it has undertaken sufficient consultation and analysis to begin the balloting process for the amendments to IAS 28?

Appendix A—Due process steps

A1. The following table sets out the due process steps taken by the Board.

Step	Required/optional	Actions
The Board posts all of the comment letters that are received in relation to the ED on the project pages.	Required	All comment letters received by the Board (51 comment letters) have been posted on the project webpage. The link is: http://www.ifrs.org/Current-Projects/IASB-Projects/Annual-Improvements/Pages/Exposure-draft-and-comment-letters.aspx
Board and Interpretation Committee meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	The Board discussed the comment letter analysis prepared by the staff at its May 2017 meeting (see Agenda Paper 12B , which is a publicly available staff paper). The project webpage has up-to-date information: http://www.ifrs.org/Current-Projects/IASB-Projects/IFRS-9-and-IAS-28-Measurement-of-long-term-interests/Pages/default.aspx
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	Required	Because of the narrow scope and the clarifying nature of the amendments (ie they do not create new requirements), we have not prepared an effect analysis. The Board has considered the consequences of the narrow-scope amendments. The likely effect of the amendments is that they will reduce diversity in the application of IFRS Standards to long-term interests.
Round-table and outreach meetings to promote debate and hear views on proposals that are published for public comment.	Optional	Not considered necessary because these amendments are narrow in scope, and clarify existing requirements. The amendments were discussed with GPF members at the GPF meeting in March 2017.
Finalisation		
Due process steps are reviewed by the Board.	Required	This step will be met by this Agenda Paper.
Need for re-exposure of a Standard is considered.	Required	Analysis of the need for re-exposure is included in the main body of this paper.
The Board sets an effective date for the Standard, considering the need for effective implementation, generally providing at least one year.	Required	At its meeting in May 2017, the Board discussed and decided to set an effective date of 1 January 2019.
Drafting		
Drafting quality assurance steps are adequate.	Required	The Translations team, the Taxonomy team and the Editorial team will review the pre-ballot draft. We will perform an editorial review of the pre-ballot draft with external parties. The pre-ballot draft will be made available to members of the International Forum of Accounting Standard-Setters.

Publication		
Press release to announce the final Standard.	Required	A press release will be published with the final amendments.
A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the Board has responded to the comments received.	Required	Not considered necessary because these amendments are narrow in scope, and clarify existing requirements.
Standard is published.	Required	Final amendments will be made available on eIFRS on the publication date. The DPOC will be informed of the official release.