IFRS Interpretations Committee Meeting

Agenda reference 16

Staff Paper

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Project **Annual Improvements 2009 - 2011**

Topic **Feedback from October 2010 IASB meeting**

Introduction

1. The purpose of this paper is to provide feedback to the Interpretations Committee of the IASB's discussion of Annual Improvements at the October 2010 Board meeting. At this meeting, the Board discussed a number of Annual Improvements recommendations that the IFRS Interpretations Committee had made. In summary the Board discussions were as follows:

    (a) Proposals for inclusion in Annual Improvements:

        (i) The Board accepted the proposed amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* relating to repeat application of IFRS 1, but it asked the staff to do further work in relation to the proposed amendments to IFRS 3 *Business Combinations* (Regrouping and consistency of contingent consideration guidance) and IAS 24 *Related Party Disclosures* (Key Management Personnel).

        (ii) The Board assessed against the proposed enhanced criteria for Annual Improvements, the other items proposed for inclusion in the next Annual Improvements exposure draft. The Board had discussed these proposed amendments in detail and tentatively agreed to their inclusion at previous meetings. The Board concluded that all these items met the proposed enhanced criteria.

(iii) The Board agreed with the Committee's recommendation not to include in Annual Improvements issues related to:

(a) IAS 1 *Presentation of Financial Statements* – Encouraged versus required disclosures

(b) IAS 21 *The Effect of Changes in Foreign Exchange Rates* – Repayments of investments and foreign currency translation reserve

(c) IAS 40 *Investment Property* – Change from fair value model to cost model

2. The relevant extract from IASB Update is included in the appendix.

Appendix – Extract from IASB Update October 2010

Annual improvements

The IASB discussed three issues that the IFRS Interpretations Committee (the Interpretations Committee) had recommended that the Board should include within the next *Improvements to IFRSs* exposure draft to be published in November 2010.

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

The Board discussed a proposed amendment to clarify the guidance relating to the repeat application of IFRS 1. The question arose from an entity that had previously reported in accordance with IFRSs to meet foreign listing requirements, and had applied IFRS 1. However, the entity then delisted and no longer presents its financial statements in accordance with IFRSs, instead reporting only in accordance with its national GAAP. In a subsequent reporting period, the reporting requirements in the entity's local jurisdiction change from national GAAP to IFRSs, and the entity is again required to present its financial statements in accordance with IFRSs.

The Board agreed with the Interpretations Committee that the scope of IFRS 1 lacks clarity relating to the requirement that an entity should apply IFRS 1 for a second time in the circumstances described above. Consequently, the Board tentatively decided that IFRS 1 should be amended to clarify that an entity is required to apply IFRS 1 when preparing and presenting IFRS financial statements in the circumstances described, even if the entity has applied IFRS 1 in a previous reporting period.

The Board tentatively decided to include the proposed amendment within the next *Improvements to IFRSs* exposure draft.

IFRS 3 *Business Combinations* - Regrouping and consistency of contingent consideration guidance

The Board discussed a proposed amendment to remove existing inconsistencies in classification, measurement and disclosures relating to contingent consideration associated with business combinations.

The proposed change would be to delete references to other IFRSs in paragraphs 40 and 58 of IFRS 3. All guidance on the accounting for contingent consideration arising from business combinations would therefore be regrouped within IFRS 3. The proposed amendment would also explicitly exclude contingent consideration arising from business combinations from the scopes of IAS 39 *Financial Instruments: Recognition and Measurement* and of IFRS 7 *Financial Instruments: Disclosures*.

The Board expressed concerns about the effects of the proposed changes that might go beyond an annual improvement. The Board asked for analyses of practical examples of contingent consideration that would fall under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The Board also asked the staff whether the proposed amendment was consistent with US GAAP requirements. Discussions will continue at a future meeting.

IAS 24 *Related Party Disclosures* - Key Management Personnel (KMP)

The Board discussed a proposed amendment to the definition of a related party in IAS 24. The amendment would clarify that a management entity that provides KMP services to a reporting entity is deemed to be identified as the relevant related party in respect of those KMP services. Consequently, the service fees paid by the reporting entity to the management entity would be disclosed.

The amendment also proposes that the individuals who are employees or directors of the management entity and who are acting as KMP of the reporting entity should not be identified as a related party (unless they qualify as related parties for other reasons). The revised definition would apply to the management entity's parent, its subsidiaries and its fellow subsidiaries.

The Board expressed concerns about unintended consequences of the proposed improvement to the definition of a related party. They asked the staff to perform further work to ensure consistency of the proposal with the objective of IAS 24 and to bring to the Board examples of the

Assessment of issues already approved by the Board at earlier meetings against newly proposed criteria for inclusion within *Annual Improvements*

The Board agreed with the staff's assessment that issues they had approved for inclusion within *Annual Improvements* at an earlier meeting met the newly proposed criteria set out in the *Proposed Amendments to the Due Process Handbook* published for public comments in August 2010. The proposed amendments related to:

- IFRS 1:Clarification of the borrowing costs exemption
- IAS 1:Clarification of requirements for comparative information
- IAS 16:Classification of servicing equipment
- IAS 32:Accounting for the income tax consequences of distributions
- IAS 34:Reporting segment information for total assets in interim reports

Issues not recommended for inclusion within the *Annual Improvements* cycle for 2009-2011

Following the IFRS Interpretations Committee's recommendation, the Board agreed that the two issues listed below did not meet the criteria for inclusion in *Annual Improvements*:

- IAS 1 *Presentation of Financial Statements* - Encouraged versus required disclosures
- IAS 21 *The Effect of Changes in Foreign Exchange Rates* - Repayments of investments and foreign currency translation reserve. The Board was advised that the Interpretations Committee recommended that the issue should be considered within a broad review of IAS 21 as a potential item for the Board's future agenda.

Issue carried forward from the last *Improvements to IFRSs* exposure draft published in August 2009

At its March 2010 meeting the Interpretations Committee recommended the Board should not finalise the proposed amendment to IAS 40 *Investment Property* included in the exposure draft of *Improvements to IFRSs* published in August 2009. At its March 2010 meeting the Board referred this recommendation back to the Interpretations Committee for further deliberation. The Interpretations Committee re-deliberated the proposed amendment at its July 2010 meeting. The proposed amendment would remove the requirement to transfer investment property to IAS 2 *Inventory* at the commencement of development with a view to sale. As a result of this re-deliberation the Interpretations Committee re-confirmed its recommendation not to finalise the proposed change to IAS 40.

At its meeting on 19 October 2010, the Board accepted the Interpretations Committee's recommendation not to finalise the proposed amendment based on the analysis presented to them.