

STAFF PAPER

October 2012

IASB Meeting

Project	Annual Improvements to IFRSs 2011-2013 cycle		
Paper topic	Summary of Due Process followed		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Introduction and purpose

1. During the period February 2012 to September 2012, the IASB has discussed five proposed annual improvements issues which it has tentatively agreed to include in the Exposure Draft *Annual Improvements Cycle 2011-2013* (Exposure Draft). We are about to start the balloting process for this Exposure Draft, with publication scheduled for November 2012.
2. The purpose of this paper is to:
 - (a) give a brief summary of the proposed amendments;
 - (b) ask if any IASB members intend to dissent from the Exposure Draft;
 - (c) explain the steps in the due process that the IASB has taken before the publication of the Exposure Draft and to confirm that the IASB has complied with the due process requirements to date;
 - (d) recommend that the IASB should publish the Exposure Draft with a comment period of not less than 120 days; and
 - (e) ask the IASB whether they agree with the staff recommendations.

Summary of the proposed amendments

3. The Exposure Draft contains five proposed amendments affecting five IFRSs and the Basis for Conclusions of IFRS 1 *First-time Adoption of International*

Financial Reporting Standards. The IASB discussed each of the issues and tentatively decided to publish a proposal to address these through the Annual Improvements process. All these issues were also discussed by the IFRS Interpretations Committee (the Interpretations Committee) except for the proposed amendment to IFRS 13 which was taken directly to the IASB because of the timing of the issue arising relative to the proposed publication date of the Exposure Draft.

4. The dates when each issue was discussed by the IASB and the Interpretations Committee is included in Appendix A of this paper, along with a brief summary of each proposed amendment.

Intention to dissent

5. When each of the five issues was discussed, the IASB voted on each one, and no IASB members voted against any of the proposed amendments. However we are required to formally ask whether any IASB members intend to dissent to any of the proposed amendments before we ballot.

Question for IASB members

Do any IASB members intend to dissent to any of the proposed amendments to be included in the Exposure Draft?

Confirmation of the due process steps

6. In Appendix B we have summarised the required due process steps taken in developing the Exposure Draft. For summarising these steps and demonstrating that the IASB has met all the due process requirements to date, we used the required steps from the reporting template 'Development and publication of an Annual Improvements Exposure Draft' in Appendix 4- Due Process Protocol' of the draft revised Due Process Handbook.

Comment period

7. According to paragraph 6.15 of the draft *IFRS Foundation Due Process Handbook* (May 2012) Annual Improvements are normally exposed for a period of 90 days for comments. However, we propose that the Exposure Draft be exposed for at least 120 days. The reason for proposing a longer comment period is that we understand from one particular industry sector that they think that the proposed amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to revenue-based depreciation could have an industry-wide impact. We propose a longer comment period to allow more time for those affected to assess the extent of the impact and for us to undertake outreach to them.

Staff recommendation

8. We think that the IASB has met all of the mandatory due process steps to support the publication of the Exposure Draft; we recommend that the IASB should publish the Exposure Draft with a comment period of 120 days.

Questions for the IASB

1. Does the IASB agree that the Exposure Draft should be published with a comment period of not less than 120 days?
2. Is the IASB satisfied that all required Due Process steps applicable so far have been complied with?

Appendix A: Summary of the proposed amendments

A1. The amendments addressed in the Exposure Draft are set out in the following table with further details in the paragraphs below it.

IFRS	Subject of amendment
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	Meaning of effective IFRSs
IFRS 3 <i>Business Combinations</i>	Scope exceptions for joint ventures
IFRS 13 <i>Fair Value Measurement</i>	Scope of paragraph 52 (portfolio exception)
IAS 16 <i>Property, Plant and Equipment</i> IAS 38 <i>Intangible Assets</i>	Revenue-based depreciation
IAS 40 <i>Investment Property</i>	Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying whether property is an investment property or owner-occupied property

IFRS 1—Meaning of effective IFRSs

A2. The IASB proposes to amend paragraph BC11 and add paragraph BC11A to clarify that if a new IFRS is not yet mandatory, but permits early application, that IFRS is permitted, but not required, to be applied in the entity's first IFRS financial statements.

A3. The Interpretations Committee discussed this issue in May 2012. The IASB discussed this issue in June 2012.

IFRS 3—Scope exceptions for joint ventures

A4. The IASB proposes to amend paragraph 2(a) to:

- a. exclude from the scope of IFRS 3 the formation of all types of joint arrangements as defined in IFRS 11 *Joint Arrangements*, ie joint ventures and joint operations; and
- b. clarify that the scope exception only applies to the financial statements of the joint venture or the joint operation itself.

- A5. The Interpretations Committee discussed this issue in November 2011. The IASB discussed this issue in February 2012.

IFRS 13—Scope of paragraph 52 (portfolio exception)

- A6. The IASB proposes to amend paragraph 52 to clarify that the portfolio exception applies to all contracts accounted for 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.
- A7. The IASB discussed this issue in September 2012.

IAS 16 and IAS 38—Revenue-based depreciation

- A8. The IASB proposes to add paragraph 62A to IAS 16 and paragraph 98A to IAS 38 to clarify that revenue-based methods should not be permitted for depreciation and/or amortisation purposes respectively, because they reflect a pattern of generation, instead of consumption, of economic benefits that arise from the operation of the business of which the asset is part.
- A9. The Interpretations Committee discussed this issue in March 2012. The IASB discussed this issue in April 2012.

IAS 40—Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying whether property is an investment property or owner-occupied property

- A10. The IASB proposes to amend IAS 40 to state explicitly that judgement is needed to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets, or a business combination within the scope of IFRS 3 and that this judgement is not based on the guidance in IAS 40 but instead is based on the guidance in IFRS 3. The guidance included in IAS 40 about how to distinguish investment property from owner-occupied property is applied in addition to, not instead of, the guidance in IFRS 3 on identifying a business.
- A11. The Interpretations Committee discussed this issue in November 2011. The IASB discussed this issue in February 2012.

Appendix B: Confirmation of Due Process Steps followed in the development of the Exposure Draft Annual Improvements Cycle 2011-2013

1. The following table sets out the required Due Process steps followed by the IASB in the development of the Exposure Draft (prepared as at 4 October 2012):

<i>Step</i>	<i>Metrics or evidence</i>	<i>Actions/staff comments</i>
<i>IASB meetings held in public, with papers available for observers All decisions are made in public session</i>	<i>Meetings held to discuss topic Project Website contains a full description with up-to-date information on the project Meeting papers posted in a timely fashion</i>	The issues were discussed and approved for inclusion in the 2011-2013 cycle of the Annual Improvements process by the IASB in its meetings in February, April, June and September 2012. Project webpage was updated by the staff after every Interpretations Committee or IASB meeting in which issues proposed for inclusion in Annual Improvements were discussed. Agenda papers posted on the website before every Interpretations Committee or IASB meeting
<i>Drafting quality assurance steps are adequate</i>	<i>Translations team included in review process</i>	Translations team has reviewed the draft Exposure Draft.
<i>Drafting quality assurance steps are adequate</i>	<i>XBRL team included in review process</i>	XBRL team has reviewed the draft Exposure Draft
<i>Exposure draft has appropriate comment period</i>	<i>Interpretations Committee sets comment period for response Any period outside the normal comment period requires an explanation from the IASB to DPOC, and subsequent approval</i>	In this paper we are recommending that the IASB should allow a period of 90 days for comment on the Exposure Draft. This is the standard comment period for Annual Improvements.
<i>A check is performed to ensure that each amendment included in the package meets the Annual Improvements criteria</i>		All the papers presented to the IASB included an assessment of the proposed amendments against the Annual Improvements criteria.
<i>Due process steps reviewed by IASB</i>	<i>Summary of all due process steps discussed by the Interpretations Committee before an IFRS is issued</i>	In this paper we are demonstrating that all the required due process steps applicable to date have been performed.
<i>Annual Improvements published</i>	<i>Annual Improvements posted on Interpretations Committee website</i>	The Exposure Draft will be posted on the IFRS website when published.