

STAFF PAPER

June 2013

IASB Meeting

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|-------------|---|--|---------------------|
| Project | Annual Improvements project—2011-2013 cycle | | |
| Paper topic | Summary of comment letter analysis | | |
| CONTACT(S) | Leonardo Piombino | lpiombino@ifrs.org | +44 (0)20 7246 0571 |

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

1. The IASB published the Exposure Draft ED/2012/2 *Annual Improvements to IFRSs 2011–2013 Cycle* in November 2012 ('the ED'). The comment period ended on 18 February 2013. The IASB received 65 comment letters.
2. The ED proposed four amendments to IFRSs. At its meeting in May 2013, the IFRS Interpretations Committee ('the Interpretations Committee') recommended that the IASB should finalise all the four proposed annual improvements.
3. The following issues are analysed in this paper:
 - (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
 - (d) IAS 40 *Investment Property*—clarifying the interrelationship of IFRS 3 with IAS 40 when classifying property as investment property or owner-occupied property.
4. Also, in this paper:
 - (a) **Appendix A** contains a breakdown of respondent categories by type and geographical region.

- (b) **Appendix B** has a numerical analysis of comment letters containing a split of comments between those that support and those that oppose each of the proposed amendments.

Purpose of this paper

- 5. The objective of this paper is:
 - (a) to present to the IASB the Interpretations Committee's recommendations on the annual improvements project issues that it discussed at its meeting in May 2013 including:
 - (i) a summary of changes made in response to comments received on the issues that the Interpretations Committee recommends be finalised;
 - (ii) the proposed wording for the final amendments as set out in Agenda Papers 12B and 12C; and
 - (b) to obtain a IASB decision on the finalisation of these issues.

Summary of the Interpretations Committee's recommendations to the IASB

- 6. In the table below we provide:
 - (a) a list of the issues as originally proposed by the IASB;
 - (b) a summary of the main comments received by respondents; and
 - (c) a summary of the changes that the Interpretations Committee recommends for the finalisation of the proposed amendments in response to comments received.

Summary of the main proposed changes

- 7. A majority of respondents agreed with the IASB's proposed amendments as shown in **Appendix B**. This Appendix has a numerical analysis of comment

letters containing a split of comments between those that support and those that oppose each of the proposed amendments.

8. A summary of the main proposed changes is described in the paragraphs that follow. For a detailed description of the comments received and the source of those comments, the IASB should refer to the agenda papers presented to the Interpretations Committee at the May 2013 meeting.

Issue 1: IFRS 1—Meaning of effective IFRSs

9. The matters discussed at the May 2013 Interpretations Committee meeting were set out in **Agenda Paper 11A** that can be found on the public website¹.

Proposed amendment

10. 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.

Main comments raised by respondents

11. Some respondents think that the IASB should not amend the Basis for Conclusions because it summarises the IASB's original considerations in reaching the conclusions in IFRS 1.

The Interpretations Committee's recommendations

12. The Interpretations Committee recommended to the IASB that it should finalise the proposed amendment. The Interpretations Committee recommended to the IASB that it should not amend paragraph BC11, because it represents the IASB's original decision. It recommended to the IASB that it should add a footnote to

¹ <http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2013/May/AP11A%20-%20AIP%20IFRS%201%20Meaning%20of%20effective%20IFRSs.pdf>

paragraph BC11 (instead of modifying it, as proposed in the ED) and to add paragraph BC11A (as proposed in the ED).

13. The Interpretations Committee's proposed wording is presented in Agenda Papers 12B and 12C.

Annual Improvements criteria reassessment

14. We think that the proposed amendment to the Basis for Conclusions of IFRS 1 meets the Annual Improvements criteria established by the *Due Process Handbook* issued in February 2013, because it clarifies a perceived discrepancy between paragraphs 7 and BC11 of IFRS 1. These criteria are reported in Appendix C of this paper.

Question 1

Does the IASB agree with the Interpretations Committee's recommendations to finalise the amendment to the Basis for Conclusions of IFRS 1, including the proposed wording changes, as described in **Agenda papers 12B and 12C?**

Issue 2: IFRS 3—Scope exception for joint ventures

15. The matters discussed at the May 2013 Interpretations Committee meeting were set out in **Agenda Paper 11B**, which can be found on the public website².

Proposed amendment

16. 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

² <http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2013/May/AP11B%20-%20AIP%20IFRS%203%20Scope%20exception.pdf>

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

Main comments raised by respondents

17. Some respondents think that:
- (a) It is unnecessary to clarify that the scope exception only applies to the financial statements of the joint arrangement itself. This clarification could create confusion because some may interpret it to mean that IFRS 3 shall be applied in the investors' financial statements when the joint arrangement is established. The acquirer of an interest in a joint arrangement does not obtain control of it and therefore the transaction does not meet the definition of a business combination; and
 - (b) the proposed amendment should be applied prospectively to avoid the use of hindsight and to be consistent with prospective initial application of IFRS 3.

The Interpretations Committee's recommendations

18. The Interpretations Committee recommended to the IASB that it should finalise the proposed amendment. To address respondents' concerns, 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).
19. The Interpretations Committee's proposed wording is presented in Agenda Papers 12B and 12C.

Annual Improvements criteria reassessment

20. We think that the proposed amendment to IFRS 3 meets the Annual Improvements criteria established by the *Due Process Handbook* issued in

February 2013, because it removes the uncertainties caused by the unclear wording of paragraph 2(a) of IFRS 3. These criteria are reported in Appendix C of this paper.

Question 2

Does the IASB agree with the Interpretations Committee's recommendations to (i) finalise the proposed amendment to paragraph 2(a) of IFRS 3, (ii) require prospective application of the amendment, and (iii) modify the wording of the Basis for Conclusion, as described in **Agenda papers 12B and 12C**?

Issue 3: IFRS 13—Scope of paragraph 52 (portfolio exception)

21. The matters discussed at the May 2013 Interpretations Committee meeting were set out in **Agenda Paper 11C**, which can be found on the public website³.

Proposed amendment

22. 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.

Main comments raised by respondents

23. Some respondents think that the amendment should not be applied retrospectively, because IFRS 13 is only applicable prospectively as of the beginning of the annual period in which IFRS 13 is initially applied.

The Interpretations Committee's recommendations

24. The Interpretations Committee recommended to the IASB that it should finalise the proposed amendment.

³ <http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2013/May/AP11C%20-%20AIP%20IFRS%2013%20Portfolio%20exception.pdf>

25. The Interpretations Committee agreed with the concerns raised and 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.
26. The Interpretations Committee's proposed wording is presented in Agenda Papers 12B and 12C.

Annual Improvements criteria reassessment

27. We think that the proposed amendment to IFRS 13 meets the Annual Improvements criteria established by the *Due Process Handbook* issued in February 2013, because it clarifies the IASB's intentions and removes the uncertainties caused by the wording of paragraph 52 of IFRS 13. These criteria are reported in Appendix C of this paper.

Question 3

Does the IASB agree with the Interpretations Committee's recommendations of to finalise the proposed amendment to paragraph 52 of IFRS 13 and to require prospective application of the amendment, as described in **Agenda papers 12B and 12C?**

Issue 4: IAS 40—Clarifying the interrelationship of IFRS 3 with IAS 40

28. The matters discussed at the May 2013 Interpretations Committee meeting were set out in **Agenda Paper 11D**, which can be found on the public website⁴.
29. 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

⁴ <http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2013/May/AP11D%20-%20AIP%20IAS%2040.pdf>

- (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.

Main comments raised by respondents

30. Some respondents think that the retrospective application of the amendment should be permitted, because it is only a clarification on how current guidance in IAS 40 and IFRS 3 already applies.

The Interpretations Committee's recommendations

31. The Interpretations Committee recommended to the IASB that it should finalise the proposed amendment.
32. 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.
33. The Interpretations Committee's proposed wording is presented in Agenda Papers 12B and 12C.

Annual Improvements criteria reassessment

34. We think that the proposed amendment to IAS 40 meets the Annual Improvements criteria established by the *Due Process Handbook* issued in February 2013, because it clarifies that IFRS 3 and IAS 40 are not mutually exclusive. These criteria are reported in Appendix C of this paper.

Question 4

Does the IASB agree with the Interpretations Committee's recommendations to finalise the amendment to IAS 40, including the proposed wording changes, as described in **Agenda Papers 12B and 12C**?

Appendix A—Respondents by geographical region

| Respondent type | Africa | Asia | Europe | Latin America | North America | Oceania | Global | Unknown | Total |
|---------------------|----------|-----------|-----------|---------------|---------------|----------|-----------|----------|-----------|
| Individuals | | 1 | 1 | | | | | 3 | 5 |
| Accountancy body | 3 | 4 | 4 | 1 | | | | | 12 |
| Accounting Firm | | | | | | | 11 | | 11 |
| Preparer | | | 4 | | 1 | | | | 5 |
| Representative body | | 2 | 5 | | 1 | 1 | | | 9 |
| Public sector | | | | | | | | | 0 |
| Regulator | | 1 | 1 | | | | 1 | | 3 |
| Standard-setter | | 6 | 7 | 4 | 1 | 1 | | | 19 |
| User | | | 1 | | | | | | 1 |
| Total | 3 | 14 | 23 | 5 | 3 | 2 | 12 | 3 | 65 |

Appendix B—Comment letters numerical analysis

Question 1: Do you agree with the IASB’s proposal to amend the IFRS as described in the Exposure Draft?

| IFRS 1 Meaning of effective IFRS | Number of respondents | Percentage of respondents |
|---|------------------------------|----------------------------------|
| Agreement | 39 | 60% |
| Conditional agreement | 9 | 14% |
| Disagreement | 12 | 18% |
| No response | 5 | 8% |
| Total | 65 | 100.0% |
| | | |
| IFRS 3 Scope exception for JV | Number of respondents | Percentage of respondents |
| Agreement | 49 | 75% |
| Conditional agreement | 6 | 9% |
| Disagreement | 5 | 8% |
| No response | 5 | 8% |
| Total | 65 | 100.0% |
| | | |
| IFRS 13 Scope of portfolio exception | Number of respondents | Percentage of respondents |
| Agreement | 52 | 80% |
| Conditional agreement | 9 | 14% |
| Disagreement | - | 0% |
| No response | 4 | 6% |
| Total | 65 | 100.0% |
| | | |
| IAS 40 Interrelationship with IFRS 3 | Number of respondents | Percentage of respondents |
| Agreement | 47 | 72% |
| Conditional agreement | 7 | 11% |
| Disagreement | 6 | 9% |
| No response | 5 | 8% |
| Total | 65 | 100.0% |

Question 2⁵: Do you agree with the proposed transitional provisions and effective date for the issue as described in the Exposure Draft?

| IFRS 3 Scope exception for JV | Number of respondents | Percentage of respondents |
|---|------------------------------|----------------------------------|
| Agreement | 50 | 77% |
| Conditional agreement | 0 | 0% |
| Disagreement | 10 | 15% |
| No response | 5 | 8% |
| Total | 65 | 100.0% |
| | | |
| IFRS 13 Scope of portfolio exception | Number of respondents | Percentage of respondents |
| Agreement | 58 | 89% |
| Conditional agreement | 0 | 0% |
| Disagreement | 3 | 5% |
| No response | 4 | 6% |
| Total | 65 | 100.0% |
| | | |
| IAS 40 Interrelationship with IFRS 3 | Number of respondents | Percentage of respondents |
| Agreement | 50 | 77% |
| Conditional agreement | 0 | 0% |
| Disagreement | 10 | 15% |
| No response | 5 | 8% |
| Total | 65 | 100.0% |

⁵ This question is not applicable to the proposed amendment to IFRS 1.

Appendix C—Interpretations Committee criteria for annual improvements (Extract from the *Due Process Handbook* February 2013)

- 6.12 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.
- 6.13 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.
- 6.14 Proposed Annual Improvements should be well defined and narrow in scope. The IASB assesses proposed Annual Improvements against the criteria set out above before they are published in an Exposure Draft. 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.