

STAFF PAPER

April 2014

IASB Meeting

Project	Narrow-scope amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i>		
Paper topic	Summary of Due Process followed		
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Purpose of this paper

1. The purpose of this paper is to explain the steps in the due process that the IASB has taken before the publication of the Exposure Draft (Proposed Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*) and to ask the IASB to confirm that it is satisfied that it has complied with the due process requirements to date.

Background

2. The IASB published *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27) in October 2012 to provide an exception to the consolidation requirements in IFRS 10 *Consolidated Financial Statements* for investment entities.
3. The IFRS Interpretations Committee (the Interpretations Committee) received requests to clarify some issues related to the *Investment Entities* amendments. The Interpretations Committee discussed the issues in its November 2013 and January 2014 meetings. Although the Interpretations Committee did not reach a consensus on some of the issues, the analysis was conveyed to the IASB and discussed at the March IASB meeting. During the March IASB meeting, the

following issues were discussed and a majority of the IASB tentatively made the following decisions:

(a) **Amendments to IFRS 10—an investment entity subsidiary that also provides investment-related services.**

The IASB proposes to amend IFRS 10 by confirming that an investment entity parent should measure all of its subsidiaries at fair value, including those that are themselves investment entities. The proposed amendment will also clarify that the limited exception to this fair value requirement applies only to those operating subsidiaries whose only substantive purpose is to provide support services for the investment entity's activities (including providing investment-related services to third parties) and, as such, act as an extension of the operations of the investment entity. The limited exception to the fair value requirement does not apply to subsidiaries that both perform investment-related services and have a more than insignificant amount of direct investing activities.

(b) **Amendments to IFRS 10—exemption from preparing consolidated financial statements requirements in IFRS 10: Applicability to a subsidiary of an investment entity.**

The IASB proposes to amend IFRS 10 to confirm that the exemption from preparing consolidated financial statements set out in paragraph 4(a) of IFRS 10 should be available to an intermediate parent entity that is a subsidiary of an investment entity but that is not an investment entity itself.

(c) **Amendments to IAS 28—application of the equity method by a non-investment entity investor to an investment entity investee.**

The IASB proposes to amend IAS 28 by:

- (i) requiring a non-investment-entity investor to retain, when applying the equity method, the fair value accounting applied by an investment entity associate; and

- (ii) clarifying that a non-investment-entity investor that is a party to an investment entity joint venture cannot, when applying the equity method, retain the fair value accounting applied by that investment entity joint venture.

4. Our plan is to issue an Exposure Draft with the proposed amendments for these three matters.

Effect of the proposed amendments

5. The purpose of the proposed amendments is to reduce the likelihood of diversity in practice developing. Feedback from outreach activity to the members of the International Forum of Accounting Standard-Setters (IFASS), accounting firms and securities regulators indicated that if these matters were not addressed, these issues could cause diversity in practice.

Intention to dissent

6. In accordance with paragraph 6.23 of the *Due Process Handbook*, we are also formally asking whether any members intend to dissent from the final amendment before we ballot.

Proposed timetable for balloting and publication

7. The balloting process of *Investment Entities: Clarifications to the accounting for interests in subsidiaries and applying the consolidation exemption* (Proposed amendments to IFRS 10 and IAS 28) will start in April 2014 and its publication is scheduled for early June 2014.

Transition

8. We propose that the narrow-scope amendments should be applied retrospectively, because the original *Investment Entities* amendments (October 2012) also required retrospective application. We consider that the retrospective application of the narrow-scope amendments are not onerous, for the following reasons:

- (a) **Amendments to IFRS 10—an investment entity subsidiary that also provides investment-related services.**

The proposed amendments are not intended to change the original decisions made by the IASB in their deliberations of the investment entities requirements and only clarify the original decisions.

(b) Amendments to IFRS 10—exemption from preparing consolidated financial statements requirements in IFRS 10: Applicability to a subsidiary of an investment entity.

The proposed amendments confirm the continued availability of an exemption from presenting consolidated financial statements of intermediate parents and do not require any retrospective accounting.

(c) Amendments to IAS 28—application of the equity method by a non-investment entity investor to an investment entity investee.

The proposed amendments provide relief to investors in associates that are investment entities in order to allow those investors to use the fair value financial statements of the associate instead of them having to seek the information necessary to unwind the fair value accounting of the associate.

9. We considered the effects of the amendments when an entity adopts IFRS for the first time. However, we considered that no exemption is needed.

Comment period

10. We think that it is important to provide clarifications of these issues during this year, because entities are required to apply the original *Investment Entities* amendments (October 2012) for annual periods beginning on or after 1 January 2014. In order to finalise the amendments by the end of this year, we think that the IASB would need to discuss the comments received on the ED at the October 2014 IASB meeting. Consequently, we would need to set the comment deadline for the Exposure Draft around the middle of September. Considering the urgency in timing and the limited scope of these issues, we are asking the IASB to consider a shortened comment period that is no less than 90 days. The shortened comment period needs to be consulted on with the DPOC and approved by it, in accordance with paragraph 6.7 of the *Due Process Handbook*. The DPOC is

receiving this paper at the same time as the IASB. We will report the feedback from the DPOC at the IASB meeting.

Confirmation of due process steps

11. In the Appendix, we have summarised the due process steps we have taken in developing the proposed amendments to IFRS 10 and IAS 28.
12. We note that the required due process steps for the publication of the proposed amendments have been completed, as documented in the Appendix. However, because the proposed amendments to IFRS 10 and IAS 28 are narrow-scope in nature, the extent of the due process steps performed was more limited than the ones that are required for an Exposure Draft of a new Standard.

Questions to the IASB—Compliance with due process

1. Is the IASB satisfied that all due process steps required to date that relate to the publication of the proposed amendments have been complied with?
2. Do any IASB members plan to dissent from the publication of the proposed amendments?
3. Do the IASB members agree with the proposed transition requirements and our conclusion that no specific additional relief is required for first-time adoption?
4. Do the IASB members agree with the proposed timetable for balloting and publication?
5. Do the IASB members agree with a comment period of no less than 90 days for the proposed amendments?

Appendix: Confirmation of Due Process Steps followed in the development of the Exposure Draft

1. The following table sets out the due process steps followed by the IASB that are required for publication of the Exposure Draft:

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Required	<p>This issue was discussed by the IFRS Interpretations Committee (the Interpretations Committee) during its November 2013 and January 2014 meetings and by the IASB at its March 2014 meeting.</p> <p>The IASB decided to propose a narrow-scope amendment to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i>. An <i>IFRIC Update</i> and An <i>IASB Update</i> were posted after each of the Interpretations Committee meetings and the IASB meeting at which the issues were discussed.</p> <p>A project webpage was created after the Interpretations Committee November 2013 meeting.</p>
Consultation with the Trustees and the Advisory Council.	Required	Because of the narrow-scope nature of the amendments this was considered to be unnecessary.
Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.	Required	<p>This is a narrow-scope amendment and its objective is to clarify the guidance in IFRS 10 and IAS 28.</p> <p>We assessed the likely effects of the proposed amendment as being limited, because the scope of the proposed amendment is narrow.</p> <p>A description of the financial reporting effects of the proposed amendment is included in the Basis for Conclusions of the Exposure Draft.</p>
Finalisation		
Due process steps reviewed by the IASB.	Required	The IASB will review the due process steps in its April 2014 meeting.
The ED has an appropriate comment period.	Required	The IASB will discuss at its April 2014 meeting the proposal that the ED should be published with a comment period of no less than 90 days, subject to consultation and approval from the DPOC.

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
Drafting		
Drafting quality assurance steps are adequate.	Required	The translation team will be asked to review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Required	The XBRL team will be asked to review the pre-ballot draft.
Publication		
ED published.	Required	The DPOC will be informed as part of the routine reporting to them and also following the April 2014 IASB meeting.
Press release to announce publication of ED.	Required	A press release will be published announcing the ED.