

STAFF PAPER

October 2014

IASB Meeting

IASB Mar & Apr 2014
IFRS IC Nov 2013 & Jan 2014

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	Due process considerations
CONTACT(S)	Koichiro Kuramochi kkuramochi@ifrs.org +44 (0)20 7246 6496

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*.

Purpose

1. The purpose of this paper is to set out the due process steps undertaken by the IASB in completing the narrow-scope project *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*).
2. The timing of the amendments is aimed at completing them by the end of this year. Consequently, this paper was prepared in the expectation that the IASB will reach agreement at this meeting on how to finalise these issues.

Structure of the paper

3. The purpose of this paper is therefore to:
 - (a) discuss the mandatory effective date of the final amendments;
 - (b) assess whether the final amendments can be finalised or whether they need to be re-exposed before finalisation;
 - (c) clarify whether any IASB members intend to dissent from the final amendment;
 - (d) explain in Appendix A to this Staff Paper the due process steps that the IASB has taken since the publication of the Exposure Draft; and

- (e) ask questions to the IASB.

Meetings when the proposed amendments to IFRS 10 and IAS 28 have been discussed

4. The proposed amendments to IFRS 10 and IAS 28 were discussed:
 - (a) by the IFRS Interpretations Committee ('the Interpretations Committee') at its meetings in November 2013 (Staff Paper 9) and January 2014 (Staff Paper 5).
 - (b) by the IASB at its meetings in March 2014 (Staff Papers 12A–12D), April 2014 (Staff Paper 12G) and October 2014 (this meeting) (Staff Paper 4).
5. The IASB will discuss the comment letters received on the Exposure Draft and is proposing changes in this October 2014 meeting.

Transition

6. 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 is not onerous, for the following reasons:

- (a) **Amendments to IFRS 10—exemption from preparing consolidated financial statements requirements in IFRS 10.**

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.

- (b) **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 its deliberations of the investment entities requirements and only clarify the original decisions.

(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 their having to seek the information that would be necessary to unwind the fair value accounting of the associate.

IFRS 1 First-time Adoption of International Financial Reporting Standards

7. We looked at whether amendments would be required to IFRS 1 for first-time adopters. However, we note that:
- (a) the original investment entities amendment in 2012 did not specifically provide an exemption in IFRS 1; and
 - (b) the nature of this narrow-scope amendment is to provide clarification and does not change the nature of the requirement in the original investment entities amendment in 2012.
8. Consequently, we do not think that specific relief is needed in IFRS 1 for this amendment.

Effective date

9. Paragraph 6.35 of the *Due Process Handbook* requires that the mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements. We expect to issue the final amendments to IFRS 10 and IAS 28 in December 2014. The amendments to IFRS 10 and IAS 28 are narrow in scope. In addition, these proposed amendments would apply retrospectively on or after the effective date.
10. Consequently, we propose that the mandatory effective date for the amendments should be 1 January 2016. We also propose that early application for the amendments should be permitted.

Finalisation or re-exposure

11. Paragraph 6.25 of the IFRS Foundation *Due Process Handbook* (the *Due Process Handbook*) specifies the criteria by which the IASB assesses whether the proposals can be finalised or whether they should instead be re-exposed.
12. In considering whether there is a need for re-exposure, the IASB:
 - (a) identifies substantial issues that emerged during the comment period on the Exposure Draft and that it had not previously considered;
 - (b) assesses the evidence that it has considered;
 - (c) determines whether it has sufficiently understood the issues, implications and likely effects of the new requirements and actively sought the views of interested parties; and
 - (d) considers whether the various viewpoints were appropriately aired in the Exposure Draft and adequately discussed and reviewed in the Basis for Conclusions.
13. If the IASB reaches an agreement on the proposed amendments to IFRS 10 and IAS 28, based on the staff recommendations in Staff Papers 4B–4D in this October 2014 meeting, we think that the changes to the amendments are not fundamental and respond to the feedback received. We base this view on the re-exposure criteria in paragraphs 6.25–6.29 of the *Due Process Handbook*.
14. Accordingly, we consider that the proposed amendments to IFRS 10 and IAS 28 should be finalised without re-exposure.

Intention to dissent

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

Due process

16. The *Due Process Handbook* sets out due process requirements for finalising a Standard.

Consideration of comments received and consultation

Publishing an Exposure Draft

17. In June 2014 the IASB published the Exposure Draft *Investment Entities: Applying the Consolidation Exception* (ED/2014/2), which contained a proposal to amend IFRS 10 and IAS 28.
18. The IASB thought that it was important to provide clarification on 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, the IASB set the comment deadline for the ED as 15 September 2014. Considering the urgency in timing and the limited scope of these issues, the IASB and the DPOC approved a shortened comment period that is no less than 90 days, in accordance with paragraph 6.7 of the *Due Process Handbook*. Accordingly, the ED was open for comment for 96 days.

Comment letters received

19. At this meeting, the IASB is being presented with a summary and an analysis of the 80 comment letters received on the Exposure Draft. In response to the comments received, the IASB will decide whether to revise the proposed amendments.

Further consultation

20. We did not conduct other formal outreach such as public hearings and round-table meetings, because this project is a narrow-scope amendment. We also did not undertake a separate consultation with the IFRS Advisory Council, because of the narrow-scope nature of the amendment.

Finalisation

Balloting

21. If the IASB reaches agreement at this meeting on how to finalise these issues, the balloting process for *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10 and IAS 28) will start in October 2014 and its publication is scheduled for December 2014.

Confirmation of due process steps

22. In Appendix A we have summarised the due process steps that we have taken since publishing the Exposure Draft. In order to summarise these steps and thereby demonstrate that we have met all the due process requirements to date, we used the due process protocol 'Finalisation of a Standard, Practice Guidance or Conceptual Framework chapter', which is consistent with the *Due Process Handbook*.
23. We note that the required due process steps applicable to date for the publication of the final amendments have been completed, as documented in Appendix A.

Questions for the IASB

1. Do the IASB members agree with the proposed transition requirements and our conclusion that no specific additional relief is required for first-time adoption?
2. Do the IASB members agree with 1 January 2016 as the mandatory effective date for the final amendments to IFRS 10 and IAS 28? Do the IASB members agree that earlier application should be permitted?
3. Do the IASB members agree that the proposed amendments to IFRS 10 and IAS 28 should be finalised without re-exposure?
4. Do any members intend to dissent from the final amendment?
5. Are the IASB members satisfied that all required due process steps to date that pertain to the publication of the final amendments to IFRS 10 and IAS 28 have been complied with?

Appendix A

Confirmation of due process steps followed in the finalisation of the narrow-scope project of *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10 and IAS 28).

The following table sets out the due process steps followed by the IASB in the development of the narrow-scope project of *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10 and IAS 28).

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
Consideration of information gathered during consultation		
The IASB posts all of the comment letters that are received in relation to the Exposure Draft on the project pages.	Required if request issued	All comment letters that the IASB has received (80 comment letters) on the Exposure Draft were posted on the project web pages.
IASB meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	The IASB will discuss the comment letter analysis on the basis of a publicly available Staff Paper at its October 2014 meeting. The project webpage was updated by the staff after every Interpretations Committee or IASB meeting. The results of the discussions of the Interpretations Committee and the IASB are also summarised in the <i>IFRIC Update</i> and the <i>IASB Update</i> for each meeting.
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 expected limited consequences of the amendment (ie it is not a major amendment) an effect analysis is not prepared. However, the consequences of the narrow-scope amendment have been considered as part of the IASB's and the Interpretations Committee's discussions. The likely effect of the amendment is to reduce divergence in practice.
Finalisation		
Due process steps are reviewed by the IASB.	Required	This step will be met by this Staff Paper.
Need for re-exposure of a Standard is considered.	Required	Analysis of the need to re-expose is included in the main body of this Staff Paper.

Step	Required/ Optional	Actions
The IASB sets an effective date for the Standard, considering the need for effective implementation, generally providing at least one year.	Required	Analysis of the effective date is included in the main body of this Staff Paper.
Drafting		
Drafting quality assurance steps are adequate.	Required	The Translations team will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Required	The XBRL team will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Optional	The Editorial team will review the drafts during the ballot process. 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 (IFASS).
Publication		
Press release to announce the final Standard.	Required	A press release will be published with the final amendments and made available to the Due Process Oversight Committee ('the DPOC') together with a summary of the media coverage.
A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the IASB has responded to the comments received.	Required	A Feedback Statement is not needed, because the amendments are narrow in scope (ie it is not a major amendment).
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.