



ED/2012/1

Annual Improvements to IFRSs

2010-2012 Cycle

Public Discussion

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I. Introduction

- Annual Improvements Process (AIP): ‘mechanism for non urgent but necessary amendments to IFRSs’
- omnibus standard (‘to be grouped together and issued in one package’)
- AIP criteria (para. 65A of the IASB Due Process Handbook)
- 5th cycle 2010—2012: eleven amendments
- Transitional provisions and effective date for each proposed amendment





II. Overview of the topics addressed in the ED (1/2)

IFRS	#	Subject of amendment
IFRS 2 <i>Share-based Payment</i>	1	Definition of 'vesting condition'
IFRS 3 <i>Business Combinations</i>	2	Accounting for contingent consideration in a business combination
IFRS 8 <i>Operating Segments</i>	3	Aggregation of operating segments
	4	Reconciliation of the total of the reportable segments' assets to the entity's assets
IFRS 13 <i>Fair Value Measurement</i>	5	Short-term receivables and payables
IAS 1 <i>Presentation of Financial Statements</i>	6	Current/non-current classification of liabilities



II. Overview of the topics addressed in the ED (2/2)

IFRS	#	Subject of amendment
IAS 7 <i>Statement of Cash Flows</i>	7	Interest paid that is capitalised
IAS 12 <i>Income Taxes</i>	8	Recognition of deferred tax assets for unrealised losses
IAS 16 <i>Property, Plant and Equipment</i> IAS 38 <i>Intangible Assets</i>	9	Revaluation method – proportionate restatement of accumulated depreciation
IAS 24 <i>Related Party Disclosures</i>	10	Key management personnel
IAS 36 <i>Impairment of Assets</i>	11	Harmonisation of disclosures for value in use and fair value less costs of disposal



III. Proposals in the ED and tentative opinion of the IFRS-Committee

2 questions to be answered individually for each proposed amendment:

(1) Do you agree with the **Board's proposal to amend the IFRS** as described in the exposure draft?

If not, why and what alternative do you propose?

(2) Do you agree with the proposed **transitional provisions** and **effective date** for the issue as described in the exposure draft?

If not, why and what alternative do you propose?



III. 1. IFRS 2 – Definition of ‘vesting condition’ (1/2)

Issue:

- Existing concerns about the definition of ‘vesting condition’

Proposal IASB:

- Definition of the term ‘performance condition’ in Appendix A:
 - a performance target may relate either to the performance of the entity as a whole or to some part of the entity, such as a division or an individual employee
 - a performance target is defined by reference to the entity’s own operations (or activities) or the price (or value) of its equity instruments (including shares and share options)
 - any performance target needs to have an explicit or implicit service requirement for at least the period during which the performance target is being measured



III. 1. IFRS 2 – Definition of ‘vesting condition’ (2/2)

Proposal IASB (continued):

- Definition of the term ‘service condition’ in Appendix A:
 - if the employee fails to complete a specified service period, the employee fails to satisfy a service condition, regardless of what the reason for that failure is
- 🕒 Application for periods beginning on / after 1.1.2014; ea permitted (to be disclosed)

Tentative opinion of the IFRS Committee:

Agreement in principle

Nonetheless, the case-by-case approach is not supported



III.2. IFRS 3 – Accounting for contingent consideration in a business combination (1/4)

Issue:

- Reference to ‘other applicable IFRSs’ in para. 40 of IFRS 3 is unclear
- Requirements on subsequent measurements in para. 58 are inconsistent with the measurement requirements in IFRS 9, IAS 37 or other applicable IFRSs

Proposal IASB:

- Deleting the reference to ‘other applicable IFRSs’ from para. 40
- Deleting the reference to ‘IAS 37 or other IFRSs as appropriate’ from para. 58(b)
- Clarification in para. 58, that the fair value gains and losses shall be recognised in profit or loss, unless the recognition of the resulting gains or losses is required in other comprehensive income in accordance with IFRS 9



III.2. IFRS 3 – Accounting for contingent consideration in a business combination (2/4)

Proposal IASB (continued):

- Amending the classification requirements of IFRS 9 (new para. 4.1.2(c), 4.2.1(e)) to clarify that
 - contingent consideration that is a financial asset or financial liability can only be measured at fair value
 - the changes in the fair value of the financial liabilities shall be presented in accordance with para. 5.7.7-5.7.8 as if they had been designated at fair value through profit or loss at initial recognition
- 🕒 Application for periods beginning on / after 1.1.2015; ea permitted if IFRS 9 is applied at the same time (to be disclosed)



III.2. IFRS 3 – Accounting for contingent consideration in a business combination (3/4)

Tentative opinion of the IFRS Committee:

Agreement in principle with the proposal to amend the IFRS

- specifically with the deletion of all the references to other IFRSs

Nonetheless, following **concerns/suggestions**:

- The consequential amendments should be made not only to IFRS 9 but also to IAS 39
- It should be clarified in para. 40 of IFRS 3 that an obligation to pay contingent consideration may be classified as a non-financial liability
- The new 4.2.1(e) of IFRS 9 is inconsistent with the accounting requirements of paragraph 5.7.1 in conjunction with paragraph 4.2.1(a) in cases, where liabilities for contingent consideration in a business combination meet the definition of derivatives



III.2. IFRS 3 – Accounting for contingent consideration in a business combination (4/4)

Tentative opinion of the IFRS Committee (continued):

- A reconsideration of the entire concept of contingent consideration would be desirable
- Any future amendments to IFRS 3 would best be considered in connection with the IASB's post implementation review of this standard rather than in the Annual Improvements Project

Rejection of the proposed effective date

- The effective date of the proposed amendments should be brought forward to 1 January 2014
- It should be allowed to apply the proposed amendment independently of an application of IFRS 9



III.3. IFRS 8 – Aggregation of operating segments (1/2)

Issue:

- The meaning of ‘similar economic characteristics’ used in applying the aggregation criteria in para. 12 is not clarified
- There is no explicit requirement to disclose the aggregation of operation segments

Proposal IASB:

- Adding para. 22 (aa), according to which the judgments made by management in applying the aggregation criteria in para. 12 shall be disclosed:
 - a brief description of the operating segments that have been aggregated
 - the economic indicators that have been assessed in determining that they share similar economic characteristics (for example, profit margin spreads, sales growth rates etc)
- 🕒 Application for periods beginning on / after 1.1.2014; ea permitted (to be disclosed)



III.3. IFRS 8 – Aggregation of operating segments (2/2)

Tentative opinion of the IFRS Committee:

Agreement in principle

Nonetheless, following **suggestions**:

- The additional disclosure requirement should only include a brief description of the operating segments that have been aggregated and an explanation of how the aggregation criteria of IFRS 8.12 have been met
- Examples for specific economic characteristics ('profit margin spreads, sales growth rates etc') should either be deleted or examples for non-quantitative criteria should be added
- Any future amendments to IFRS 8 would best be considered in connection with the IASB's post implementation review of this standard rather than in the Annual Improvements project



III.4. IFRS 8 – Reconciliation of the total of the reportable segments' assets to the entity's assets

Issue:

- Para. 28(c) inconsistent with para. 23 and 28(d)

Proposal IASB:

- Clarification in para. 28(c), that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed only if segment assets are regularly reported to the chief operating decision maker, in line with the requirements in para. 23
- 🕒 Application for periods beginning on / after 1.1.2014; ea permitted (to be disclosed)

Tentative opinion of the IFRS Committee:

Agreement



III. 5. IFRS 13 – Short-term receivables and payables (1/2)

Issue:

- After issuing IFRS 13, the amendments to IFRS 9 and IAS 39 (deletion of para. B5.4.12 and AG79 respectively) might be perceived as removing the ability to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial

Proposal IASB:

- Clarification in the proposed para. BC138A of IFRS 13 that, when making amendments to IFRS 9 and IAS 39, the Board did not intend to change practice in the measurement of short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial

🕒 No transitional provisions and no effective date



III. 5. IFRS 13 – Short-term receivables and payables (2/2)

Tentative opinion of the IFRS Committee:

Rejection:

- Amending the Basis for Conclusions without amending the standard correspondingly is generally not a preferable approach
- There is no need for a clarification of this issue because IAS 8 addresses materiality in applying accounting policies
- Question whether the proposed amendment is consistent with the practical expedient as proposed in paragraph 60 of the IASB's ED/2011/6 *Revenues from Contracts with Customers*



III.6. IAS 1 – Current/non-current classification of liabilities (1/2)

Issue:

- Currently diversity in practice on the classification of liabilities as current or non-current in situations, in which an entity has the discretion to refinance or roll over an existing loan when different loan terms apply

Proposal IASB:

- Amending para. 73 to clarify that a liability is classified as non-current if an entity expects, and has the discretion, to refinance or roll over an obligation under an existing loan facility with the same lender, on the same or similar terms
- Explaining the term ‘same or similar terms’ in para. BC2: no substantial change to the rights and obligations of the parties to the loan facility
- 🕒 Prospective application for periods beginning on / after 1.1.2014; ea permitted (to be disclosed)



III.6. IAS 1 – Current/non-current classification of liabilities (2/2)

Tentative opinion of the IFRS Committee:

- **Agreement** with adding the words ‘with the same lender’ in para. 73 of IAS 1
- Following **concerns** with respect to the proposed term ‘same or similar terms’:
 - the term is ambiguous
 - the term should be explained in the standard itself rather than in the Basis for Conclusions on IAS 1
 - using different terms in IAS 1 (‘same or similar terms’) and IAS 39 (‘substantially different terms’) should be avoided
 - question, whether the ‘10 per cent extinguishment test’ as described in B 3.3.6 of IFRS 9 and AG 62 of IAS 39 can be used when assessing the similarity of the loan terms
- Suggestion to amend the wording of the para. 73 as follows: „*If an entity expects, and has the discretion right and the ability at the reporting date to refinance or roll over an obligation or a part of it [...]*“



III.7. IAS 7 – Interest paid that is capitalised

Issue:

- Lack of guidance regarding the classification in the statement of cash flows of interest paid that is capitalised

Proposal IASB:

- Amending paragraphs 16(a) and 33 of IAS 7 and adding paragraph 33A to clarify that the classification of interest that is capitalised shall follow the classification of the underlying asset to which those payments were capitalised
- 🕒 Application for periods beginning on / after 1.1.2014; ea permitted (to be disclosed)

Tentative opinion of the IFRS Committee:

Agreement



III.8. IAS 12 – Recognition of deferred tax assets for unrealised losses (1/2)

Issue:

- Existing uncertainties and diversity in practice regarding the recognition of deferred tax assets

Proposal IASB:

- If tax law restricts the utilisation of tax losses to deduction against income of a specified type, a deductible temporary difference shall be assessed in combination only with other deductible temporary differences of the appropriate type (para. 27A and an example after para. 30A)
- Taxable profit against which an entity assesses a deferred tax asset for recognition is the amount before any reversal of deductible temporary differences (para. 29(a)(i) and an example after para. 29)



III.8. IAS 12 – Recognition of deferred tax assets for unrealised losses (2/2)

Proposal IASB (continued):

- An action that results only in the reversal of existing deductible temporary differences is not a tax planning opportunity. To qualify as a tax planning opportunity, the action needs to create or increase taxable profit (para. 30A and an example after para. 30A)
- 🕒 Application for periods beginning on / after 1.1.2014; ea permitted (to be disclosed)

Tentative opinion of the IFRS Committee:

The provisions of IAS 12 need to be reassessed in their entirety, the recognition of deferred tax assets is only one issue in need of improvement



III.9. IAS 16 / IAS 38 – Revaluation method – proportionate restatement of accumulated depreciation

Issue:

- Diversity in practice on the computing of accumulated depreciation in cases where the residual value, the useful life or the depreciation method has been re-estimated before a revaluation

Proposal IASB:

- Amending para. 35 of IAS 16 and para. 80 of IAS 38 to clarify that
 - a proportionate restatement of accumulated depreciation is not necessary to be applied
 - the gross carrying amount is restated in a manner consistent with the revaluation of the net carrying amount
 - the accumulated depreciation is calculated as the difference between the gross and the net carrying amounts

🕒 Application for periods beginning on / after 1.1.2014; ea permitted (to be disclosed)

Tentative opinion of the IFRS Committee:

Agreement



III.10. IAS 24 – Key management personnel

Issue:

- Existing lack of clarity regarding the disclosure of related party transactions that arise when a management entity provides key management personnel services to a reporting entity

Proposal IASB:

- Extending the definition of a ‚related party‘ to include management entities (para. 9(b)(viii))
- The key management personnel compensation that is provided by a management entity to its own employees or directors is excluded from the disclosure requirements of paragraph 17 (para. 17A)
- Extending the disclosure requirements of para. 18 to require the separate disclosure of transactions for the provisions of key management personnel services (para. 18A)
- 🕒 Application for periods beginning on / after 1.1.2014; ea permitted (to be disclosed)

Tentative opinion of the IFRS Committee:

Agreement



III.11. IAS 36 – Harmonisation of disclosures for value in use and fair value less costs of disposal

Issue:

- The disclosures that IAS 36 requires in para.130(g), when value in use is used to determine recoverable amount (disclosure of the discount rate(s)), differ from those disclosures required when fair value less costs of disposal is used (no requirement to disclose discount rate(s))

Proposal IASB:

- If fair value less costs of disposal is measured using a present value technique, the discount rate(s) used shall be disclosed (para. 130(f))
- 🕒 Prospective application for periods beginning on / after 1.1.2014; ea permitted (to be disclosed)

Tentative opinion of the IFRS Committee:

Agreement



IV. AIP Criteria

Criteria in para. 65A of the IASB Due Process Handbook	1) IFRS 2	2) IFRS 3	3) IFRS 8	4) IFRS 8	5) IFRS 13	6) IAS 1	7) IAS 7	8) IAS 12	9) IAS 16/38	10) IAS 24	11) IAS 36
	Vesting condition	Contingent conside- ration	Aggregation of operating segments	Reconcili- ation of the total of the assets	Short-term receivables and payables	Current/ non-current liabilities	Interest paid that is capitalised	Recognition of deferred tax assets	Revaluation method - accumulated depreciation	Key management personnel	Disclosures for VIU and FVLCOB
i) clarifying - unclear wording <i>or</i> - absence of guidance <i>and / or</i> ii) correcting - resolving a conflict <i>or</i> - oversight	✓		✓		✓	✓		✓	✓	✓	
b) well-defined sufficiently narrow consequences considered	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
c) reaching conclusion on a timely basis	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
d) if amended IFRSs are subject of a IASB project a need to make the amendment sooner	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

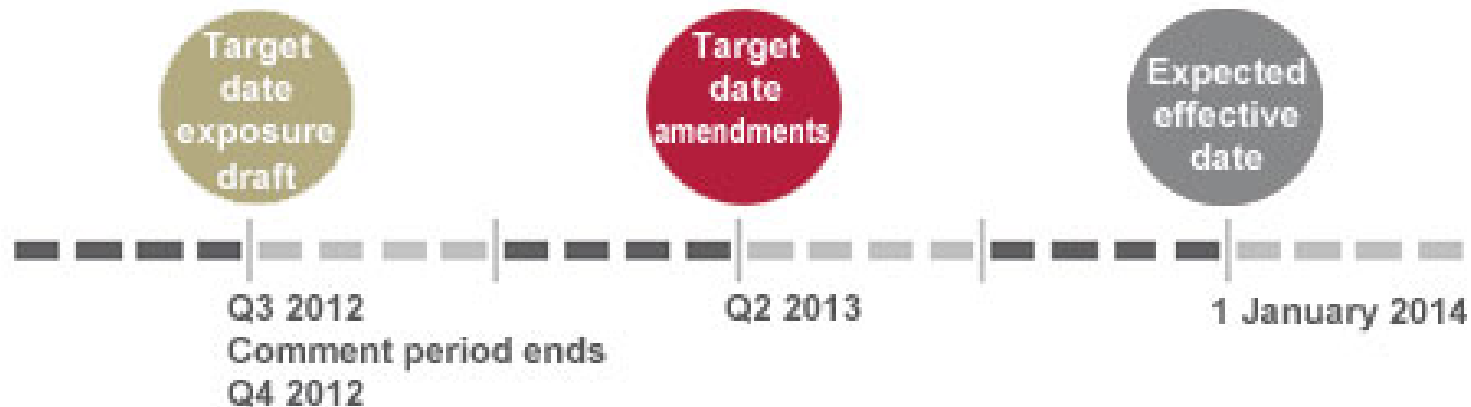
* An amendment does not propose a new principle, or a change to an existing principle



V. Outlook

6th cycle 2011-2013 (IASB meetings 2/2012, 4/2012, 6/2012):

- IFRS 1 - *Meaning of „effective“ in para. 7 of IFRS 1*
- IFRS 3 - *Scope exclusion for the formation of a joint venture*
- IFRS 3 - *Definition of a business*
- IAS 16 / IAS 38 - *Revenue-based depreciation method*





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