



# **ED/2012/2**

# **Annual Improvements to IFRSs**

# **2011-2013 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 (paragraph 65A of the IASB Due Process Handbook)
- 6th cycle 2011—2013: four amendments proposed
- EFRAG’s Draft Comment Letter (DCL) issued on 19 December 2012 with comments to be received by 1 February 2013
- IASB project milestones:





## II. Overview of the topics addressed in the ED

<b>IFRS</b>	<b>#</b>	<b>Subject of amendment</b>
<b>IFRS 1</b> <i>First-time Adoption of International Financial Reporting Standards</i>	<b>1</b>	Meaning of effective IFRSs
<b>IFRS 3</b> <i>Business Combinations</i>	<b>2</b>	Scope exceptions for joint ventures
<b>IFRS 13</b> <i>Fair Value Measurement</i>	<b>3</b>	Scope of paragraph 52 (portfolio exception)
<b>IAS 40</b> <i>Investment Property</i>	<b>4</b>	Clarifying the interrelationship of IFRS 3 <i>Business Combinations</i> and IAS 40 when classifying property as investment property or owner-occupied property



### III. Proposals in the ED and tentative opinions of the IFRS Committee and of EFRAG

2 questions to be answered individually for each proposed amendment:

- (1) Do you agree with the **IASB's proposal to amend the Standard** 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?



# 1. IFRS 1 – Meaning of effective IFRSs (1/2)

## Issue:

- Uncertainty about which version of an IFRS should be applied in an entity's first IFRS financial statements, if a new or a revised IFRS has been issued and is not yet mandatory, but can be adopted early.
- Inconsistency between the paragraphs 7 and BC11 of IFRS 1.

## Proposal IASB:

Amending paragraph BC11 and adding paragraph BC11A to clarify that:

- if a new IFRS is not yet mandatory but permits early application, that IFRS is permitted to be applied in the entity's first IFRS financial statements;
- a single version of an IFRS has to be applied throughout each period presented in an entity's first IFRS financial statements.



# 1. IFRS 1 – Meaning of effective IFRSs (2/2)

## Proposal IASB (continued):

- ⌚ No transitional provisions and no effective date since the proposed amendment only regards the Basis for Conclusions.

## Tentative opinion of the IFRS Committee:

**Agreement with the proposal to amend the IFRS;** however, the wording of the proposed amendment should be improved.

## EFrag's DCL:

**The proposed amendment is not necessary,** because IFRS 1 is already sufficiently clear.



## 2. IFRS 3 – Scope exceptions for joint ventures (1/3)

### Issue:

- The wording of paragraph 2(a) of IFRS 3, which excludes the formation of joint ventures from the scope of IFRS 3, has not been amended to refer to joint arrangements when IFRS 11 *Joint Arrangements* was issued and replaced IAS 31 *Interests in Joint Ventures*.
- Uncertainty about whether the scope exclusion in paragraph 2(a) of IFRS 3 addresses:
  - the accounting by the joint arrangements themselves in their financial statements;  
or
  - the accounting by the parties to the joint arrangement for their interests in the joint arrangement.





## 2. IFRS 3 – Scope exceptions for joint ventures (2/3)

### Proposal IASB:

Amending paragraph 2(a) of IFRS 3 to:

- exclude the formation of all types of joint arrangements as defined in IFRS 11, i.e. joint ventures and joint operations, from the scope of IFRS 3;
  - and
  - clarify that the scope exception only applies to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- 🕒 Retrospective application for periods beginning on / after 1.1.2014; earlier application permitted (to be disclosed).

### Tentative opinion of the IFRS Committee:

**Agreement with the proposal to amend the IFRS.**

**Agreement with the proposed transitional provisions and effective date.**



## 2. IFRS 3 – Scope exceptions for joint ventures (3/3)

### EFRAG's DCL:

**Agreement with the proposal to amend the IFRS.**

**Question to constituents:**

Do you believe that the IASB should address any further amendments to IFRS 3 before commencement of its planned post-implementation review of the standard? Please explain why.

### **Tentative opinion of the IFRS Committee on EFRAG's question:**

The IFRS Committee considers it appropriate to address the issues raised by constituents within the Annual Improvements project rather than to postpone them until the post-implementation review, provided that those issues are sufficiently narrow in scope to qualify for inclusion in annual improvements.



### 3. IFRS 13 – Scope of paragraph 52 (portfolio exception) (1/2)

#### Issue:

Existing uncertainties about whether the portfolio exception set out in paragraph 52 includes all contracts that:

- are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*
- including contracts that do not meet the definitions of ‘financial assets’ or ‘financial liabilities’ in IAS 32 *Financial Instruments: Presentation* (such as some contracts to buy or sell a non-financial item).

#### Proposal IASB:

Amending paragraph 52 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.



### 3. IFRS 13 – Scope of paragraph 52 (portfolio exception) (2/2)

#### Proposal IASB (continued):

- ⌚ Retrospective application for periods beginning on / after 1.1.2014; earlier application permitted (to be disclosed).

#### Tentative opinion of the IFRS Committee:

**Agreement with the proposal to amend the IFRS;** however, the wording of the proposed paragraph BC1 should be improved.

**Agreement with the proposed transitional provisions and effective date.**

#### EFRAG's DCL:

**The same opinion as the IFRS Committee.**



## 4. IAS 40 – Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property (1/3)

### Issue:

Currently diversity in practice on delineating the scope of IFRS 3 and IAS 40, when an investment property with associated insignificant ancillary services is acquired.

### Proposal IASB:

Adding a new paragraph 14A and a heading before paragraph 6 'Classification of property as investment property or owner-occupied property' to clarify that IFRS 3 and IAS 40 are not mutually exclusive:

- judgement is required to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3; and
- this judgement is not based on paragraphs 7–15 of IAS 40, but is instead based on the guidance in IFRS 3.



## 4. IAS 40 – Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property (2/3)

### Proposal IASB (continued):

- ⌚ Prospective application for periods beginning on / after 1.1.2014; earlier application permitted (to be disclosed).

### Tentative opinion of the IFRS Committee:

#### Agreement with the proposal to amend the IFRS with the following comments:

- The original request - to clarify whether the acquisition of a single investment property with relatively simple processes associated with it constitutes a business as defined in IFRS 3 - has not been responded to by the IASB.
- The IASB should address the broader issue of what is a business as defined in IFRS 3 as part of its post-implementation review of IFRS 3.



## 4. IAS 40 – Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property (3/3)

### Tentative opinion of the IFRS Committee (continued):

- The IASB should not only amend IAS 40 but also other IFRSs, where the judgement to distinguish a business combination from an acquisition of a single asset or a group of assets is needed, accordingly (e.g. IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets*).
- The proposed heading before paragraph 6 does not reflect the content of the proposed new paragraph 14A.

**Agreement with the proposed transitional provisions and effective date.**

### EFRAG's DCL:

**Agreement with the proposal to amend the IFRS;** however the amendments should be applied retrospectively.



## IV. AIP Criteria

Criteria in para. 65A of the IASB Due Process Handbook	1) IFRS	2) IFRS 3	3) IFRS 13	4) IAS 40
	Meaning of effective IFRS	Scope exceptions for joint ventures	Scope of paragraph 52 (portfolio exception)	Clarifying the interrelationship of IFRS 3 and IAS 40
a)* i) <b>clarifying</b> - unclear wording <i>or</i> - absence of guidance <b>and/or</b> ii) <b>correcting</b> - resolving a conflict <i>or</i> - oversight	✓		✓	✓
	✓	✓		
b) <b>well-defined sufficiently narrow</b> consequences considered	✓	✓	✓	✓
c) <b>reaching conclusion on a</b> <b>timely basis</b>	✓	✓	✓	✓
d) <b>if amended IFRSs are subject</b> <b>of a IASB project</b> a need to make the amendment sooner	✓	✓	✓	✓

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





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