



ED/2011/2

Improvements to IFRSs

Public Discussion

Frankfurt am Main, 7 October 2011

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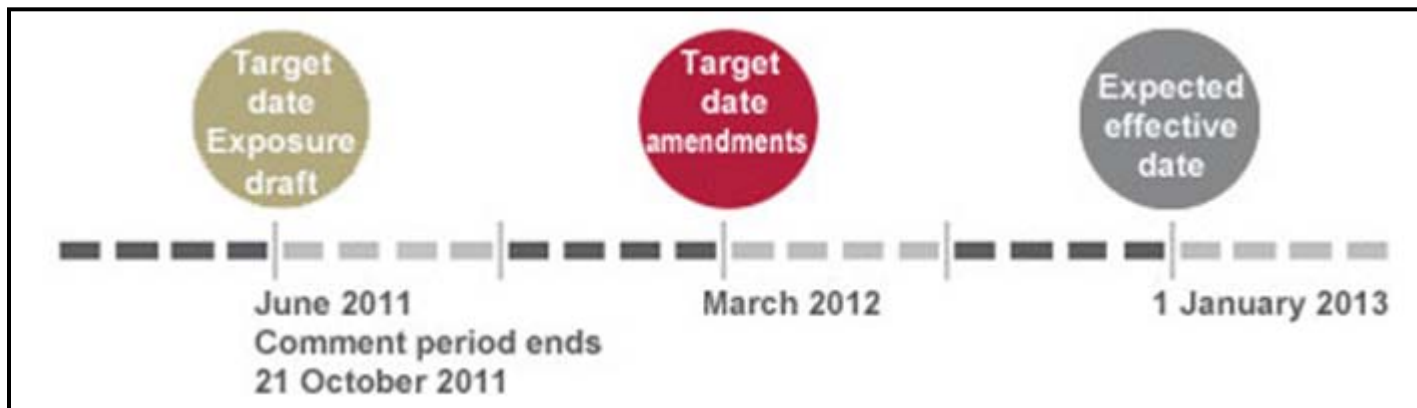
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I. Introduction

- AIP – Annual Improvements Process
- ‘mechanism for non urgent but necessary amendments to IFRSs’
- omnibusstandard
(‘to be grouped together and issued in one package’)
- 4th cycle 2009-2011
- now AIP criteria available (para. 65A in the IASB Due Process Handbook)





II. Proposals and Questions per ED

IFRS	#	Subject of proposed improvement
IFRS 1 First-time Adoption of IFRS	1	Repeated application
	2	Start to capitalise borrowing costs before transition to IFRS
IAS 1 Presentation of Financial Statements	3	Requirements for comparative information
	4	Consistency with the amended Framework
IAS 16 Property, Plant and Equipment	5	Classification of servicing equipment
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II. Proposals and Questions per ED

2 questions to each proposal for improvement:

(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?



II. Proposals and questions per ED

1. IFRS 1 – Repeated application (1/2)

Issue:

IFRS 1: application only once or also repeated application?

Proposal IASB:

Clarification by adding para. 2A (repeated application is possible):

When transitioning to IFRS, application of IFRS 1 is compulsory,
if most recent previous FS do not contain explicit & unreserved compliance statement,
even if IFRS 1 had been applied in an earlier period.

 application for periods beginning on / after 1.1.2013; ea permitted (to be disclosed)

Preliminary assessment GASB:

agreement to the basic principle (repeated application)

rejection of the plan for implementation (mainly: obligatory application of IFRS 1)



II. Proposals and questions per ED

1. IFRS 1 – Repeated application (2/2)

Rationale:

- paragraph 2A too undifferentiated (number of periods of non-compliance; significance of differences between IFRS vs. previous GAAP)
- which may lead to inappropriate opportunities to make use of the IFRS 1-exemptions / options (accounting policy choices)

Alternative proposal of GASB:

- principle: in any case, full retrospective application of the IFRSs in accordance with IAS 8 should be possible (please also refer to IFRS 1.7)
- application of para. 2A should be optional, however only in case and to the extent that there is specific need for the exemptions of IFRS 1 (i.e.: IFRS 1.1 (c): costs > benefits)
- in case auditors qualify the audit report, this should not allow IFRS 1 to applied repeatedly (see also IFRS 1.4 (c))



II. Proposals and questions per ED

2. IFRS 1 – Start to capitalise borrowing costs before transition to IFRS

Issue:

according to IFRS 1.D23 only prospective application of borrowing costs for qualifying assets from transition to IFRS

Proposal IASB:

Clarification through amending para. D23:

earlier application of IAS 23 (rev. 2007) than allowed by IAS 23.28:

- no requirement for restatement, if amounts are capitalised under previous GAAP,
- however: from transition to IFRS onwards, IAS 23 must be applied.

 application for periods beginning on / after 1.1.2013; ea permitted (to be disclosed)

Preliminary assessment GASB:

agreement



II. Proposals and questions per ED

3. IAS 1 – Requirements for comparative information

Issue:

- (1) So called ‘third balance sheet’ – as per which date?
- (2) Additional comparative information: only in the form of a ‘complete set of FS’?

Proposal IASB:

Clarification by amendments to IAS 1 (rev. 2007):

- ad (1) ‘third balance sheet’ per opening balance sheet date of the required previous period; related notes are not required,
- ad (2) single statements are allowed to be provided as additional comparative information (in so far no ‘*equal prominence*‘; IFRS-conformity is required, related notes are required).

 application for periods beginning on / after 1.1.2013; ea permitted

Preliminary assessment GASB:

agreement



II. Proposals and questions per ED

4. IAS 1 – Consistency with the amended framework (1/2)

Issue:

Amended Framework ≠ IAS 1

Proposal IASB:

Amendment to ('correction' of) IAS 1 to align with the amended Framework:

- 1) instead of: Purpose of FS => now: Objective of Financial Reporting
- 2) characteristics of users:
instead of: a broad spectrum of users
now: existing and potential investors (in the broader sense)

 no transition rules and no effective date

Preliminary assessment GASB:

rejection



II. Proposals and questions per ED

4. IAS 1 – Consistency with the amended framework (2/2)

Rationale / alternative proposal GASB:

- time-delayed amendment of single standards is not meaningful –
in principle, consequential amendments should be considered for all standards affected simultaneously
(as an example: in the present case amendments to IAS 8.10 s/b considered)
- for practical reasons, consequential amendments s/b considered to all standards affected on a timely basis
- specification of transition and effective date are considered necessary
- in principle, in IAS 1 a repetition of guidance with respect to ‘*objective of financial reporting*’ and ‘*understandability*’ is not considered necessary
- further consequential amendments in IAS 1 have not been considered
(IAS 1.19, .20, .23, .24)



II. Proposals and questions per ED

5. IAS 16 – Classification of servicing equipment

Issue:

IAS 16.8 with respect to *servicing equipment*: PP&E or inventory?

Proposal IASB:

Clarification through amending IAS 16.8:

Servicing equipment = PP&E, if useful life > 1 year

 application for periods beginning on / after 1.1.2013; ea permitted (to be disclosed)

Preliminary assessment GASB:

agreement



II. Proposals and questions per ED

6. IAS 32 – Income tax consequences with respect to distributions to holders of an equity instrument (1/2)

Issue:

tax-payments (partly) refundable when profits are distributed:

- IAS 12.52B: income statement related
- IAS 32.35: directly in equity

Proposal IASB:

Clarification:

amendment IAS 32.35 and
adding a new para. 35A: treatment of tax-payments (partly) refunded upon profits are
being distributed => in accordance with IAS 12

- ☞ application for periods beginning on / after 1.1.2013; retrospectively;
ea permitted (to be disclosed)



II. Proposals and questions per ED

6. IAS 32 – Income tax consequences with respect to distributions to holders of an equity instrument (2/2)

Preliminary assessment GASB:

partly rejection

reasoning:

it still remains unclear, how income tax consequences with respect to distributions to holders of an equity instrument need to be accounted for:

- IAS 12.52B ⇒ income statement related
- IAS 12.58 (a) in combination with .61A - .65 ⇒ directly in equity;

the issue s/b settled within AIP.



II. Proposals and questions per ED

7. IAS 34 – Interim financial reporting: segment information for total assets


Issue:

IAS 34.16A (g) (iv) requires disclosure of total assets per segment irrespective of whether or not this information is regularly provided to the CODM

Proposal IASB:

Clarification:

Amendment IAS 34.16A (g) (iv): disclosure only if such amounts are regularly provided to the CODM

 application for periods beginning on / after 1.1.2013; prospectively;
ea permitted (to be disclosed)

Preliminary assessment GASB:

partly rejection

Reasoning / alternative proposal GASB:

prospective application not meaningful; retrospective application s/b required

III. AIP-Criteria

Since 2/2011 AIP criteria added to **IASB Due Process Handbook** as para. 65A :

Criteria**	1) IFRS 1 Repeated application	2) IFRS 1 Borrowing - costs	3) IAS 1 Previous FY information.	4) IAS 1 Consistency with Phase A	5) IAS 16 Servicing equipment	6) IAS 12 / 32 Income tax effects dividends	7) IAS 34 Total assets per segment
a) i) clarification - unclear wording <u>or</u> - absence of guidance <u>and / or</u> ii) correction - resolving conflict <u>or</u> - oversight	✓	✓	✓	✓(2)	✓	✓	✓
b) well-defined and sufficiently narrow in scope - consequences considered	✓	✓	✓	✓	✓	✓	✓
c) conclusion on a timely basis	✓	✓	✓	✓	✓	✓	✓
d) if conflict with a current or planned IASB-project need for sooner amendment via AIP necessary	✓	✓	✓(1)	✓	✓	✓(3)	✓

** please refer to the **IASB Due Process Handbook** - para. 65A.

(1) Possibly in conflict with the IASB-project **Financial Statement Presentation**.

(2) Possibly no conflict within IFRS, since the Framework is not part of IFRSs.

(3) Possibly in conflict with the IASB-project **Financial Instruments with Characteristics of Equity** (FICE).



IV. Outlook (1/2)

Issues selected for the 5th cycle (2010-2012) – IASB meeting 09/2011:

- IAS 1 Current / non-current classification of debt (rollover agreements)
- IAS 7 Classification of interest paid that is capitalised as part of the cost of an asset
- IAS 12 Deferred tax for unrealised losses on AFS debt securities
- IAS 16 Revaluation model and proportionate restatement
- IAS 24 Key management personnel [subject to further investigation by the IASB]
- IAS 36 Disclosure of the recoverable amount
- IFRS 2 Vesting and non-vesting conditions
- IFRS 8 Reconciliation of the reportable segments' assets to the entity's assets

4 issues in accordance with the proposal of the IFRIC **not included**

- IFRS 2 Modification of a share-based payment from cash-settled to equity-settled
- IAS 27 Contributions to a jointly controlled entity or an associate
- IAS 28 Purchase in stages – fair value as deemed cost
- IAS 28 Equity method

IFRS 1 – Prospective application provisions for first time adopters – **separate of AIP**

IFRS 2 – settlement contingent on future events + competition clauses – **own project**

IFRS 8 – Aggregation criteria and identification of the CODM – **further analysis** first

IV. Outlook (2/2)

5th cycle (2010 – 2012) – timetable:



anticipated:
end of Q4 / 2011 – at the earliest

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Appendix – excerpts from the ED

Proposed amendments to **IFRS 1 *First-time Adoption of International Financial Reporting Standards***

Paragraphs 2A and 39M are added. Paragraph 2 is not proposed for amendment but is included here for ease of reference.

Scope

- 2 An entity shall apply this IFRS in:
- (a) its first IFRS financial statements; and
 - (b) each interim financial report, if any, that it presents in accordance with IAS 34 *Interim Financial Reporting* for part of the period covered by its first IFRS financial statements.
- 2A An entity shall apply this IFRS when the entity's most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRSs, even if the entity applied this IFRS in a reporting period before the period reported in the most recent previous annual financial statements.

Effective date

- 39M *Improvements to IFRSs* issued in [date] added paragraph 2A and amended paragraph D23. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.



Appendix – excerpts from the ED

In Appendix D, paragraph D23 is amended (new text is underlined and deleted text is struck through).

Borrowing costs

- D23 A first-time adopter may apply the transitional provisions set out in paragraphs 27 and 28 of IAS 23, ~~as revised in 2007~~. In those paragraphs references to the effective date shall be interpreted as 1 January 2009 or the date of transition to IFRSs, whichever is later. An entity electing to apply this exemption can choose to apply the requirements in IAS 23 from an earlier date as permitted by paragraph 28 of IAS 23. From the date on which an entity applying this exemption applies IAS 23, it:
- (a) shall not restate the borrowing cost component that was capitalised under previous GAAP and included in the carrying amount of assets at that date; and
 - (b) shall account for borrowing costs incurred on or after that date, including those incurred on or after that date on qualifying assets already under construction, in accordance with IAS 23.



Appendix – excerpts from the ED

Proposed amendments to IAS 1 *Presentation of Financial Statements*

Paragraph 7 is amended and an accompanying footnote is deleted. Paragraph 9 is deleted. Paragraphs 9A and 9B are added. The heading before paragraph 9 and paragraphs 10, 38 and 41 are amended. Paragraph 39 is deleted. Paragraph 40 is renumbered 38C and amended. Paragraphs 38A and 38B, a heading and paragraphs 40A–40C and 139L are added. In amended text new text is underlined and deleted text is struck through.

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...
Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Conceptual Framework for Financial Reporting 2010* ~~The Framework for the Preparation and Presentation of Financial Statements states in paragraph QC32 25~~ that 'Financial reports are prepared for users who are assumed to have a reasonable knowledge of business and economic activities and accounting and who review and analyse a willingness to study the information with reasonable diligence diligently.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

...

[† footnote deleted]



Appendix – excerpts from the ED

Financial statements

Objective of financial reporting ~~Purpose of financial statements~~

9 ~~[Deleted] Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:~~

- ~~(a) assets;~~
- ~~(b) liabilities;~~
- ~~(c) equity;~~
- ~~(d) income and expenses, including gains and losses;~~
- ~~(e) contributions by and distributions to owners in their capacity as owners; and~~
- ~~(f) cash flows.~~

~~This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.~~

9A The objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. General purpose financial reports provide information about the financial position of a reporting entity, which is information about the entity's economic resources and claims against the reporting entity. General purpose financial reports also provide information about the effects of transactions and other events that change a reporting entity's economic resources and claims. Both types of information provide useful input for decisions about providing resources to an entity.



Appendix – excerpts from the ED

- 9B To meet the objective of general purpose financial reporting, financial statements provide information about an entity's:
- (a) assets;
 - (b) liabilities;
 - (c) equity;
 - (d) income and expenses, including gains and losses;
 - (e) contributions by, and distributions to, owners in their capacity as owners; and
 - (f) cash flows.

This information, along with other information in the notes, assists users in assessing the prospects for future net cash inflows to an entity and, in particular, their timing and certainty.



Appendix – excerpts from the ED

Complete set of financial statements

10 A complete set of financial statements comprises:

- (a) a statement of financial position as at the end of the period;
- (b) a statement of comprehensive income for the period;
- (c) a statement of changes in equity for the period;
- (d) a statement of cash flows for the period;
- (e) notes, comprising a summary of significant accounting policies and other explanatory information; and
- (ea) comparative information in respect of the previous period (the required comparative period) as specified in paragraphs 38 and 38A; and
- (f) a statement of financial position as at the beginning of the earliest required comparative period if applicable (see paragraph 40A). ~~when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.~~

An entity may use titles for the statements other than those used in this Standard.

Comparative information

38 Except when IFRSs permit or require otherwise, an entity shall disclose present comparative information in respect of the required comparative period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information ~~when~~ if it is relevant to an understanding ~~of~~ the current period's financial statements.



Appendix – excerpts from the ED

- 38A An entity shall present, as a minimum, two statements of financial position, two statements of comprehensive income, two statements of cash flows and two statements of changes in equity, and related notes.**
- 38B An entity may present additional comparative information for periods before the required comparative period as long as that information is prepared in accordance with IFRSs. An entity may present additional comparative information in one or more statements without that additional comparative information comprising a complete set of financial statements. When this is the case, the entity shall present comparative information in the related notes for those additional statements. For example, an entity may present amounts for three periods (the current period, the required comparative period and one additional comparative period) in its statement of comprehensive income. The entity is not required to present amounts for that third (additional comparative) period in its statements of financial position, cash flows and changes in equity. However, the entity presents comparative information in the related notes to the financial statements related to that additional statement of comprehensive income.
- 38C In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute whose outcome was uncertain at the end of the ~~immediately preceding reporting period~~ required comparative period and that is yet to be resolved. Users may benefit from disclosure of information that the uncertainty existed at the end of the ~~immediately preceding reporting period,~~ required comparative period and from disclosure of information about the steps that have been taken during the period to resolve the uncertainty.



Appendix – excerpts from the ED

- 39 ~~[Deleted] An entity disclosing comparative information shall present, as a minimum, two statements of financial position, two of each of the other statements, and related notes. When an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements, it shall present, as a minimum, three statements of financial position, two of each of the other statements, and related notes. An entity presents statements of financial position as at:~~
- ~~(a) the end of the current period;~~
 - ~~(b) the end of the previous period (which is the same as the beginning of the current period), and~~
 - ~~(c) the beginning of the earliest comparative period.~~
- 40 ~~[Deleted] In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute whose outcome was uncertain at the end of the immediately preceding reporting period and that is yet to be resolved. Users benefit from information that the uncertainty existed at the end of the immediately preceding reporting period, and about the steps that have been taken during the period to resolve the uncertainty.~~



Appendix – excerpts from the ED

Change in accounting policy, retrospective restatement or reclassification

- 40A** An entity shall present an additional statement of financial position as at the beginning of the required comparative period if it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements.
- 40B** In those circumstances an entity shall present, as a minimum, three statements of financial position and two of each of the other statements and related notes. The statements of financial position are as at:
- (a) the end of the current period;
 - (b) the end of the required comparative period; and
 - (c) the beginning of the required comparative period.
- 40C** However, an entity need not present related notes to the opening statement of financial position required in paragraph 40B(c), other than disclosure of information required by paragraphs 41–44 and IAS 8. The date of that opening statement of financial position shall be as at the beginning of the required comparative period regardless of whether an entity's financial statements present comparative information for earlier periods (as described in paragraph 38B).
- 41** ~~When the~~ **If an entity changes the presentation or classification of items in its financial statements, the entity it shall reclassify comparative amounts unless reclassification is impracticable. When the an entity reclassifies comparative amounts, the entity it shall disclose (including as at the beginning of the required comparative period):**
- (a) the nature of the reclassification;
 - (b) the amount of each item or class of items that is reclassified; and
 - (c) the reason for the reclassification.



Appendix – excerpts from the ED

Transition and effective date

- 139L *Improvements to IFRSs* issued in [date] amended paragraphs 10, 38 and 41, deleted paragraph 39, renumbered paragraph 40 as paragraph 38C and amended it and added paragraphs 38A, 38B and 40A–40C. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. Earlier application is permitted.



Appendix – excerpts from the ED

Proposed amendment to **IAS 16 Property, Plant and Equipment**

Paragraph 8 is amended (new text is underlined and deleted text is struck through) and paragraph 81G is added.

Recognition

- 8 Spare parts and servicing equipment are often carried as inventory and recognised in profit or loss as consumed. However, major spare parts, ~~and stand-by equipment~~ and servicing equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. ~~Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.~~

Effective date

- 81G *Improvements to IFRSs* issued in [date] amended paragraph 8. An entity shall apply that amendment for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.



Appendix – excerpts from the ED

Proposed amendments to **IAS 32 *Financial Instruments: Presentation***

Paragraphs 35, 37 and 39 are amended (new text is underlined and deleted text is struck through). Paragraphs 35A and 97L are added.

Interest, dividends, losses and gains (see also paragraph AG37)

- 35 Interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability shall be recognised as income or expense in profit or loss. Distributions to holders of an equity instrument shall be recognised debited by the entity directly to in equity, ~~net of any related income tax benefit~~. Transaction costs of an equity transaction shall be accounted for as a deduction from equity, ~~net of any related income tax benefit~~.**
- 35A** Income tax relating to distributions to holders of an equity instrument and income tax relating to transaction costs of an equity transaction shall be accounted for in accordance with IAS 12 *Income Taxes*.
- 37** An entity typically incurs various costs in issuing or acquiring its own equity instruments. These costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. The transaction costs of an equity transaction are accounted for as a deduction from equity (~~net of any related income tax benefit~~) to the extent that they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.



Appendix – excerpts from the ED

- 39 The amount of transaction costs accounted for as a deduction from equity in the period is disclosed separately under in accordance with IAS 1. ~~The related amount of income taxes recognised directly in equity is included in the aggregate amount of current and deferred income tax credited or charged to equity that is disclosed under IAS 12 *Income Taxes*.~~

Effective date and transition

- 97L *Improvements to IFRSs* issued in [date] amended paragraphs 35, 37 and 39 and added paragraph 35A. An entity shall apply those amendments retrospectively for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.



Appendix – excerpts from the ED

Appendix to proposed amendments to IAS 32

Amendment to **IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments**

In the rubric 'paragraphs 1–14A' is amended to 'paragraphs 1–17'. Paragraph 11 is amended (deleted text is struck through). Paragraph 17 is added.

Consensus

- 11 As required by paragraph 35 of IAS 32, distributions to holders of equity instruments are recognised directly in equity, ~~net of any income tax benefits~~. Interest, dividends and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterised as dividends, interest or otherwise.

Effective Date

- 17 *Improvements to IFRSs* issued in [date] amended paragraph 11. An entity shall apply that amendment retrospectively for annual periods beginning on or after 1 January 2013. If an entity applies the amendment to IAS 32 as part of the *Improvements to IFRSs* issued in [date] for an earlier period, the amendment in paragraph 11 shall be applied for that earlier period.



Appendix – excerpts from the ED

Proposed amendment to **IAS 34 Interim Financial Reporting**

In the rubric ‘paragraphs 1–49’ is amended to ‘paragraphs 1–52’. Paragraph 16A is amended (new text is underlined and deleted text is struck through) and paragraph 52 is added.

Other disclosures

- 16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information in the notes to its interim financial statements, if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis.**
- (a) ...**
 - (g) the following segment information (disclosure of segment information is required in an entity’s interim financial report only if IFRS 8 *Operating Segments* requires that entity to disclose segment information in its annual financial statements):**
 - (i) ...**
 - (iv) a measure of total assets for a particular reportable segment if such amounts are regularly provided to the chief operating decision maker and if for which there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.**
 - (v) ...**
 - (h) ...**



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Effective date

- 52 *Improvements to IFRSs* issued in [date] amended paragraph 16A. An entity shall apply that amendment prospectively for annual periods beginning on or after 1 January 2013. Earlier application is permitted.