August 2009

Exposure Draft ED/2009/11

Improvements to IFRSs

Comments to be received by 24 November 2009

International Accounting Standards Board®

IMPROVEMENTS TO IFRSs

(Proposed amendments to International Financial Reporting Standards)

Comments to be received by 24 November 2009

ED/2009/11

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Improvements to IFRSs

Introduction

The International Accounting Standards Board has published this exposure draft of proposed amendments to International Financial Reporting Standards (IFRSs) as part of its annual improvements project.

The project provides a streamlined process for dealing efficiently with a collection of non-urgent but necessary amendments to IFRSs.

Structure of exposure draft

The exposure draft includes a chapter for each IFRS for which an amendment is proposed. Each chapter includes:

(a) an explanation of the proposed amendment;

(b) when necessary, any specific additional question unique to that proposed amendment;

(c) the paragraphs of the IFRS or implementation guidance that are affected by the proposed amendment;

(d) the proposed effective date of each proposed amendment; and

(e) the basis for the Board's conclusions in proposing the amendment.

Some proposed amendments involve consequential amendments to other IFRSs. Those consequential amendments are included in the chapter that sets out the proposed amendment for the IFRS.

Invitation to comment

The Board invites comments on the proposed amendments. It would particularly welcome answers to the questions set out below. Comments are most helpful if they:

(a) answer the question as stated;

(b) indicate the specific paragraph or paragraphs to which they relate;

(c) contain a clear rationale;

(d) describe any alternative the Board should consider.

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Respondents need not comment on all of the proposed amendments or all of the questions for any amendment. The Board is not requesting comments on matters in the IFRSs not addressed in the exposure draft.

The Board will consider all comments received in writing by 24 November 2009. In considering the comments, the Board will base its conclusions on the merits of the arguments for and against each alternative, not on the number of responses supporting each alternative.

General questions (applicable to all proposed amendments)

Question 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?

Question 2

Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

Specific questions

Question 3

The Board proposes changes to IAS 34 *Interim Financial Reporting* to emphasise its disclosure principles. It also adds to the guidance to illustrate better how to apply these principles. The Board published an exposure draft *Fair Value Measurement* in May 2009. In that exposure draft, the Board proposes that all of the fair value measurement disclosures required in IFRS 7 *Financial Instruments: Disclosures* for annual financial statements should also be required for interim financial statements.

Do you agree that this proposed amendment is likely to lead to more useful information being made available to investors and other users of interim financial reports? If not, why? What would you propose instead and why?

Question 4

The Board proposes changes to IAS 34 *Interim Financial Reporting*. Do you agree that amending IAS 34 to require particular disclosures to be made in interim financial statements is a more effective way of ensuring that users of interim financial statements are provided with useful information? If not, why? What approach would you propose instead and why?

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Question 5

The Board proposes to amend IAS 40 *Investment Property* to remove the requirement to transfer investment property carried at fair value to inventory when it will be developed for sale, to add a requirement for investment property held for sale to be displayed as a separate category in the statement of financial position and to require disclosures consistent with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Do you agree that the proposed amendment should be included within *Improvements to IFRSs* or should a separate project be undertaken to address this issue? If you believe a separate project should be undertaken, please explain why.

IFRSs addressed

The following table shows the topics addressed by these proposed amendments.

IFRS	**Subject of amendment**
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	Accounting policy changes in the year of adoption
	Revaluation basis as deemed cost
IFRS 3 *Business Combinations*	Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS
	Measurement of non-controlling interests
	Un-replaced and voluntarily replaced share-based payment awards
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	Application of IFRS 5 to loss of significant influence over an associate or a jointly controlled entity
IFRS 7 *Financial Instruments: Disclosures*	Clarifications of disclosures
IAS 1 *Presentation of Financial Statements*	Clarification of statement of changes in equity
IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	Change in terminology to the qualitative characteristics

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<table>
<tr><td rowspan="2">IAS 27 Consolidated and Separate Financial Statements</td><td>Impairment of investments in associates in the separate financial statements of the investor</td></tr>
<tr><td>Transition requirements for amendments made as a result of IAS 27 (as amended in 2008) to IAS 21, IAS 28 and IAS 31</td></tr>
<tr><td>IAS 28 Investments in Associates</td><td>Partial use of fair value for measurement of associates</td></tr>
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<tr><td>IFRIC 13 Customer Loyalty Programmes</td><td>Fair value of award credit</td></tr>
</table>

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Approval by the Board of *Improvements to IFRSs* (proposed amendments to International Financial Reporting Standards)

Improvements to IFRSs (proposed amendments to International Financial Reporting Standards) was approved for publication by twelve of the fifteen members of the International Accounting Standards Board. Messrs Finnegan and Gomes and Ms McConnell abstained from voting in view of their recent appointment to the Board.

Sir David Tweedie Chairman

Stephen Cooper

Philippe Danjou

Jan Engström

Patrick Finnegan

Robert P Garnett

Gilbert Gélard

Amaro Luiz de Oliveira Gomes

Prabhakar Kalavacherla

James J Leisenring

Patricia McConnell

Warren J McGregor

John T Smith

Tatsumi Yamada

Wei-Guo Zhang

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

Introduction

The Board proposes the following amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Accounting policy changes in the year of adoption

The Board proposes to amend IFRS 1 to clarify that if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 *Interim Financial Reporting* it explains those changes and updates the reconciliations required by paragraph 24(a) and (b).

Revaluation basis as deemed cost

The Board proposes to amend IFRS 1 to clarify the scope of the exemption in paragraph D8 that permits a first-time adopter to use a revaluation basis as 'deemed cost' when an event such as a privatisation triggered a revaluation at or before the date of transition to IFRSs. The proposal reflects the Board's conclusion that its reasons for granting that exemption were equally valid for similar revaluations that occurred after the date of transition to IFRSs but during the periods covered by the first IFRS financial statements.

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

Paragraphs 27 and 32 are amended (new text is underlined and deleted text is struck through). Paragraphs 27A and 39B are added.

Presentation and disclosure

27 IAS 8 does not ~~deal with~~ apply to the changes in accounting policies ~~that occur when~~ an entity makes when it ~~first~~ adopts IFRSs or to changes in those policies until it presents its first IFRS financial statements. Therefore, IAS 8's requirements ~~for disclosures~~ about changes in accounting policies do not apply in an entity's first IFRS financial statements.

27A If during the period covered by its first IFRS financial statements an entity changes its accounting policies or its use of the exemptions contained in this IFRS, it shall explain the changes in accordance with paragraph 23 and update the reconciliations required by paragraph 24(a) and (b).

32 To comply with paragraph 23, if an entity presents an interim financial report in accordance with IAS 34 for part of the period covered by its first IFRS financial statements, the entity shall satisfy the following requirements in addition to the requirements of IAS 34:

(a) Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include:

(i) a reconciliation of its equity in accordance with previous GAAP at the end of that comparable interim period to its equity under IFRSs at that date; and

(ii) a reconciliation to its total comprehensive income in accordance with IFRSs for that comparable interim period (current and year to date). The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for that period or, if an entity did not report such a total, profit or loss in accordance with previous GAAP.

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(b) In addition to the reconciliations required by (a), an entity's first interim financial report in accordance with IAS 34 for part of the period covered by its first IFRS financial statements shall include the reconciliations described in paragraph 24(a) and (b) (supplemented by the details required by paragraphs 25 and 26) or a cross-reference to another published document that includes these reconciliations.

(c) If during the period covered by its first IFRS financial statements, an entity changes its accounting policies or its use of the exemptions contained in this IFRS, it shall explain the changes in accordance with paragraph 23 and update the reconciliations required by this paragraph.

Effective date

39B *Improvements to IFRSs* issued in [date] added paragraph 27A and amended paragraphs 27, 32 and D8. An entity shall apply those amendments for annual periods beginning on or after 1 January 2011. If an entity had first applied IFRSs in an earlier period, the entity is permitted to apply the amendment to paragraph D8 in the first annual period after the amendment is effective as if it had been available in that earlier period. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

In Appendix D paragraph D8 is amended (new text is underlined and deleted text is struck through).

Fair value or revaluation as deemed cost

D8 A first-time adopter may have established a deemed cost in accordance with previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a privatisation or initial public offering. If the measurement date is before the end of the first IFRS reporting period,[*] the first-time adopter ~~It~~ may use such event-driven fair value measurements as deemed cost for IFRSs at the date of that measurement. If the measurement date is after the first-time adopter's date of transition to

[*] Note for readers of the exposure draft: IFRS 1 defines the first IFRS reporting period as the period covered by an entity's first IFRS financial statements.

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IFRSs, the entity may elect a deemed cost at the date of transition that meets the criteria in paragraphs D5–D7. The event-driven fair value measurement within the entity's first IFRS reporting period is recognised as deemed cost when the event occurs.

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Basis for Conclusions on proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Accounting policy changes in the year of adoption

BC1 The Board received a request to clarify whether a first-time adopter is exempt from all the requirements of IAS 8 for the interim and annual periods presented in its first IFRS financial statements. If IAS 8 does not apply, the Board was asked what, if any, requirements apply when an entity changes its accounting policies between the first interim financial statements it presents in accordance with IFRSs and its first annual financial statements. A similar question arises with respect to changes an entity might make in the IFRS 1 exemptions it chooses to apply.

BC2 The Board noted that IFRS 1 requires an entity to explain how transition from a different accounting framework to IFRSs affected its reported financial position, results and cash flows. In particular, IFRS 1 requires reconciliations of profit or loss and of equity reported under previous GAAP to those under IFRSs at both the date of transition to IFRSs and the end of the latest period presented in the entity's most recent annual financial statements under previous GAAP. If an entity presents interim financial reports in accordance with IAS 34, its first interim financial report for part of the period covered by its first IFRS financial statements must include those reconciliations.

BC3 The Board concluded that to comply with IFRS 1's requirement to explain its transition to IFRS, an entity should be required to explain any changes in its accounting policies or IFRS 1 exemptions it applied between its first IFRS interim financial report and its first IFRS annual financial statements. The Board decided that the most useful information it could require was updated reconciliations between previous GAAP and IFRSs.

Revaluation basis as deemed cost

BC4 As part of its annual improvements project in 2009, the Board reconsidered the scope of paragraph D8. At that time, paragraph D8 was applicable to events such as a privatisation or initial public offering that took place before the date of transition to IFRSs, but not if the event was

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later. The Board concluded that its reasons for granting the exemption in paragraph D8 were equally valid for such events that occurred after the date of transition to IFRSs but during the periods covered by the first-time adopter's first IFRS financial statements. Therefore, the Board proposes to amend paragraph D8 to reflect that conclusion.

BC5 When deliberating comparative presentation for the proposed amendment, one option the Board considered requires an entity to establish the deemed cost on the date of transition to IFRSs using the revaluation amounts subsequently obtained on the date of measurement, adjusted to exclude any depreciation, amortisation or impairment between the date of transition to IFRSs and the date of that measurement. That would result in the balances on the date of measurement approximating the revaluation amounts. Although some believe that this presentation gives better comparability throughout the first IFRS reporting period, others object to it on the basis that making such adjustments requires hindsight and the computed carrying amounts on the date of transition are neither the revalued assets' historical costs nor their fair values on that date.

BC6 Therefore, the Board decided to require an entity to establish the deemed cost as of the event-driven fair value measurement date and, for the periods before that date, present historical costs or other amounts already permitted by IFRS 1. The Board notes that this proposed presentation overcomes the use of hindsight. It also presents supportable carrying amounts for such assets on the date of transition that are broadly consistent with the existing requirements of IFRS 1 and with the principle of the transition. Because any significant adjustments related to an event that triggers such a revaluation would already be highlighted in the first IFRS financial statements and disclosures, the proposed presentation clearly identifies the effects of any significant difference in depreciation or amortisation between the periods before and after the date of measurement.

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Proposed amendments to IFRS 3 *Business Combinations* (as revised in 2008)

Introduction

The Board proposes the following amendments to IFRS 3 *Business Combinations* (as revised in 2008).

Measurement of non-controlling interests

The Board proposes to amend paragraph 19 of IFRS 3 to clarify that the choice of measuring non-controlling interest either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets applies only to instruments that are currently entitled to a proportionate share of the acquiree's net assets. Other instruments that meet the definition of non-controlling interest should be measured at fair value or in accordance with applicable IFRSs.

Un-replaced and voluntarily replaced share-based payment awards

The Board proposes to amend the application guidance in IFRS 3 (to require the acquirer to apply paragraphs B57–B62 to all share-based payment transactions that are part of a business combination). Therefore, the application guidance would also apply to share-based payment transactions of the acquiree that the acquirer chooses not to replace and share-based payment transactions that the acquirer chooses to exchange for share-based payment transactions of the acquiree, even though they would not expire as a consequence of the business combination.

In addition, the Board proposes to align the terminology in IFRS 3 with that of IFRS 2 *Share-based Payment*. Therefore, the Board proposes replacing the term 'share-based payment award' in paragraph 30 of IFRS 3 with 'share-based payment transaction'.

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Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS

The Board proposes to amend the effective date paragraph in the amendments made to IFRS 7 *Financial Instruments: Disclosures*, IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* to clarify that those standards do not apply to contingent consideration that arose from business combinations whose acquisition dates preceded the application of IFRS 3.

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Proposed amendments to IFRS 3 *Business Combinations* (as revised in 2008)

Paragraph 19, the heading before paragraph 30 and paragraph 30 are amended (new text is underlined and deleted text is struck through) and paragraph 64A is added.

The acquisition method

Measurement principle

19 For each business combination, the acquirer shall measure any non-controlling interest in the acquiree either at fair value or other measurement basis as required by IFRSs, except for the components of non-controlling interest that are present ownership instruments and entitle their holders to a pro rata share of the entity's net assets in the event of liquidation. The acquirer shall measure those components of non-controlling interest either at fair value or at the present ownership instruments' ~~non-controlling interest's~~ proportionate share of the acquiree's identifiable net assets.

Exceptions to the recognition or measurement principles

Exceptions to the measurement principle

Share-based payment ~~awards~~ transactions

30 The acquirer shall measure a liability or an equity instrument related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment ~~awards~~ transactions with share-based payment ~~awards~~ transactions of the acquirer in accordance with the method in IFRS 2 *Share-based Payment*. (This IFRS refers to the result of that method as the 'market-based measure' of the ~~award~~ share-based payment transaction.)

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Effective date and transition

Effective date

64A *Improvements to IFRSs* issued in [date] amended paragraph 19, the heading before paragraph 30 and paragraphs 30 and B56 and added a new heading after paragraph B62 and paragraphs B62A, B62B, C3A, C7A and C13A. An entity shall apply those amendments for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

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Application guidance

In Appendix B, paragraph B56 is amended (new text is underlined and deleted text is struck through) and a footnote to paragraph B56, a heading after paragraph B62 and paragraphs B62A and B62B are added.

Determining what is part of the business combination transaction (application of paragraphs 51 and 52)

Acquirer share-based payment awards exchanged for awards held by the acquiree's employees (application of paragraph 52(b))

B56 An acquirer may exchange its share-based payment awards* (replacement awards) for awards held by employees of the acquiree. Exchanges of share options or other share-based payment awards in conjunction with a business combination are accounted for as modifications of share-based payment awards in accordance with IFRS 2 *Share-based Payment*. If the acquirer is obliged to replace the acquiree awards, either all or a portion of the market-based measure of the acquirer's replacement awards shall be included in measuring the consideration transferred in the business combination. The acquirer is obliged to replace the acquiree awards if the acquiree or its employees have the ability to enforce replacement. For example, for the purposes of applying this requirement, the acquirer is obliged to replace the acquiree's awards if replacement is required by:

(a) the terms of the acquisition agreement;

(b) the terms of the acquiree's awards; or

(c) applicable laws or regulations.

The acquirer shall apply the principles in paragraphs B57–B62 in accounting for acquiree awards it chooses to replace in a business combination as well as those it is obliged to replace. However, in ~~In~~ some situations, acquiree awards may expire as a consequence of a business combination. If the acquirer replaces those awards even though it is not obliged to do so, all of the market-based measure of the replacement awards shall be recognised as remuneration cost in the post-combination

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financial statements. That is to say, none of the market-based measure of those awards shall be included in measuring the consideration transferred in the business combination.

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* In paragraphs B56–B62B the term 'share-based payment awards' refers to vested or unvested share-based payment transactions.

Share-based payment transactions of the acquiree

B62A The acquiree may have outstanding share-based payment transactions that the acquirer does not exchange for its share-based payment transactions. If vested, those acquiree share-based payment transactions are part of the non-controlling interest in the acquiree and are measured at their fair value. If unvested, they are measured at their market-based measure as if the acquisition date were the grant date in accordance with paragraphs 19 and 30.

B62B The market-based measure of unvested share-based payment transactions is allocated to the non-controlling interest on the basis of the ratio of the portion of the vesting period completed to the total vesting period of the share-based payment transaction. The balance is allocated to post-combination service.

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Appendix to proposed amendments to IFRS 3
Amendments to other IFRSs

IFRS 7 *Financial Instruments: Disclosures*

Paragraph 44B is amended (new text is underlined) and paragraph 44H is added.

Effective date and transition

44B IFRS 3 (as revised in 2008) deleted paragraph 3(c). An entity shall apply that amendment for annual periods beginning on or after 1 July 2009. If an entity applies IFRS 3 (revised 2008) for an earlier period, the amendment shall also be applied for that earlier period. The amendment does not apply to contingent consideration that arose from a business combination whose acquisition date preceded the application of IFRS 3 (revised 2008). Such contingent consideration is accounted for in accordance with the requirements in paragraphs 32–35 of IFRS 3 (as issued in 2004).

44H Paragraph 44B was amended by *Improvements to IFRSs* issued in [date]. An entity shall apply that amendment for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies the amendment before 1 July 2010 it shall disclose that fact.

IAS 32 *Financial Instruments: Presentation*

Paragraph 97B is amended (new text is underlined) and paragraph 97E is added.

Effective date and transition

97B IFRS 3 (as revised in 2008) deleted paragraph 4(c). An entity shall apply that amendment for annual periods beginning on or after 1 July 2009. If an entity applies IFRS 3 (revised 2008) for an earlier period, the amendment shall also be applied for that earlier period. The amendment does not apply to contingent consideration that arose from a business combination whose acquisition date preceded the application of IFRS 3 (revised 2008). Such contingent consideration is accounted for in accordance with the requirements in paragraphs 32–35 of IFRS 3 (as issued in 2004).

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97E Paragraph 97B was amended by *Improvements to IFRSs* issued in [date]. An entity shall apply that amendment for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies this amendment before 1 July 2010 it shall disclose that fact.

IAS 39 *Financial Instruments: Recognition and Measurement*

Paragraph 103D is amended (new text is underlined) and paragraph 103L is added.

Effective date and transition

103D IFRS 3 (as revised in 2008) deleted paragraph 2(f). An entity shall apply that amendment for annual periods beginning on or after 1 July 2009. If an entity applies IFRS 3 (revised 2008) for an earlier period, the amendment shall also be applied for that earlier period. The amendment does not apply to contingent consideration that arose from a business combination whose acquisition date preceded the application of IFRS 3 (revised 2008). Such contingent consideration is accounted for in accordance with the requirements in paragraphs 32–35 of IFRS 3 (as issued in 2004).

103L Paragraph 103D was amended by *Improvements to IFRSs* issued in [date]. An entity shall apply that amendment for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies the amendment before 1 July 2010 it shall disclose that fact.

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Basis for Conclusions on proposed amendments to IFRS 3 *Business Combinations* (as revised in 2008)

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Measurement of non-controlling interests

BC1 The Board proposes to limit the measurement choice to non-controlling interests that are present ownership instruments and entitle their holders to a pro rata share of the entity's net assets in the event of liquidation. The acquirer should measure other components of non-controlling interest at fair value or other measurement bases as required by IFRSs. For example, a share-based payment transaction that is classified as equity shall be measured in accordance with IFRS 2 *Share-based Payment* and the equity component of a convertible instrument shall be measured in accordance with IAS 32 *Financial Instruments: Presentation*. The Board observed that without this amendment, if the acquirer chooses to measure NCI at its proportionate share of the acquiree's identifiable net assets, the acquirer might measure some equity instruments at nil. In the Board's view, this would result in not recognising economic interests that other parties have in the acquiree. Therefore, the Board proposes to amend IFRS 3 to limit the choice of measuring non-controlling interest at its proportionate share of the acquiree's identifiable net assets to those components of non-controlling interests that are present ownership instruments that entitle their holders to a pro rata share of the entity's net assets in the event of liquidation.

Un-replaced and voluntarily replaced share-based payment awards

BC2 After the revised IFRS was issued, some constituents raised concerns about the lack of explicit guidance with respect to share-based payment awards of the acquiree that the acquirer chooses to replace, even though they either are unaffected by the business combination or for which vesting is accelerated as a consequence of the business combination. In addition, some constituents were concerned that the measurement guidance for share-based payment awards applies only to replacement awards but not to acquiree awards that the acquirer chooses not to

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replace. In response to those concerns, the Board proposes to add explicit guidance in paragraphs B56 and B62A to clarify that those awards should be accounted for in the same way as acquiree awards that the acquirer is obliged to replace.

Effective date and transition

BC3 Paragraph 3(c) of IFRS 7 *Financial Instruments: Disclosures*, paragraph 4(c) of IAS 32 *Financial Instruments: Presentation* and paragraph 2(f) of IAS 39 exempted contingent consideration arrangements from the scope of IAS 39. To allow the acquirer to account for contingent consideration as required by the revised IFRS 3 *Business Combinations*, the Board proposes to delete those scope exceptions in the second phase of its project on business combinations.

BC4 The deletion of the scope exception meant that IAS 39 would apply to all contingent consideration including contingent consideration from business combinations with an acquisition date earlier than the application date of the revised IFRS 3. The Board noted that this consequence is inconsistent with the requirement in paragraph 65 of IFRS 3 that assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the revised IFRS are not adjusted upon application of the revised IFRS.

BC5 Therefore, the Board proposes to amend paragraph 44B of IFRS 7, paragraph 97B of IAS 32 and paragraph 103D of IAS 39 to clarify that the requirements in IAS 39 do not apply to contingent consideration that arose from a business combination whose acquisition date preceded the application of the revised IFRS 3. Rather, an entity accounts for such contingent consideration in accordance with the requirements in paragraphs 32–35 of IFRS 3 (as issued in 2004). The Board does not believe that the proposed amendments will affect the convergence of IFRS 3 (as revised in 2008) and SFAS 141(R).

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Proposed amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Introduction

The Board proposes the following amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Application of IFRS 5 to loss of significant influence over an associate or loss of joint control in a jointly controlled entity

The Board proposes to clarify that an entity classifies as held for sale its interest in an associate or a jointly controlled entity when it is committed to a sale plan involving loss of significant influence or joint control.

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Proposed amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Paragraphs 8A and 44C are amended (new text is underlined).

Classification of non-current assets (or disposal groups) as held for sale or as held for distribution to owners

8A An entity that is committed to a sale plan involving loss of control of a subsidiary <u>or loss of significant influence of an associate or loss of joint control of a jointly controlled entity</u> shall classify all the assets and liabilities of that subsidiary <u>or all the interests in an associate or a jointly controlled entity</u> as held for sale when the criteria set out in paragraphs 6–8 are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary <u>or an interest in the former associate or jointly controlled entity</u> after the sale.

Effective date

44C Paragraphs 8A and 36A were added by *Improvements to IFRSs* issued in May 2008. An entity shall apply those amendments for annual periods beginning on or after 1 July 2009. <u>Paragraph 8A was also amended by *Improvements to IFRSs* issued in [date]. An entity shall apply the amendment to paragraph 8A for annual periods beginning on or after 1 January 2010.</u> Earlier application is permitted. However, an entity shall not apply the amendments for annual periods beginning before 1 July 2009 unless it also applies IAS 27 (as amended in May 2008). If an entity applies the amendments before 1 July 2009 it shall disclose that fact. An entity shall apply the amendments prospectively from the date at which it first applied IFRS 5, subject to the transitional provisions in paragraph 45 of IAS 27 (amended May 2008).

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Basis for Conclusions on proposed amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations

BC1 In 2009 the Board considered the applicability of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* to situations when an entity is committed to a sale plan involving loss of significant influence of an associate or joint control of a jointly controlled entity.

BC2 The Board concluded in the second phase of its project on business combinations that the loss of control of an entity and the loss of significant influence/joint control over an entity are economically similar events and thus they should be accounted for similarly (see paragraph BC21 of the Basis for Conclusions on IAS 28 *Investments in Associates*). The Board therefore clarified that all the interest an entity has in an associate or jointly controlled entity is classified as held for sale if the entity is committed to a sale plan involving loss of significant influence or joint control. The Board also concluded that an entity shall not classify as held for sale its investment in an associate or a jointly controlled entity in accordance with IFRS 5 when it is highly probable that control will be obtained because there will be no sale.

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Proposed amendment to IFRS 7 *Financial Instruments: Disclosures*

Introduction

The Board proposes the following amendment to IFRS 7 *Financial Instruments: Disclosures*.

Disclosures about the nature and extent of risks arising from financial instruments

The Board proposes an amendment to IFRS 7 that:

- states that the qualitative disclosures in paragraph 33 should support and enhance the quantitative disclosures in paragraphs 34–42;
- removes the reference to materiality from paragraph 34(b);
- clarifies that the requirement in paragraph 36(a) applies to financial assets whose carrying amounts do not reflect the reporting entity's maximum exposure to credit risk and off balance sheet exposures;
- requires disclosure of the financial effect of collateral held as security and other credit enhancements in paragraph 36(b);
- removes the requirement in paragraph 36(d) related to financial instruments renegotiated to avoid becoming past due or impaired;
- removes the requirement in paragraph 37(c) related to collateral held as security or other credit enhancements, and
- clarifies that the requirement in paragraph 38 applies only to foreclosed collateral held at the reporting date.

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Proposed amendment to IFRS 7 *Financial Instruments: Disclosures*

Paragraph 33A is added. Paragraphs 34 and 36–38 are amended (new text is underlined and deleted text is struck through). Paragraphs 33 and 35 are not proposed for amendment, but are included for ease of reference. Paragraph 44H is added.

Qualitative disclosures

33 For each type of risk arising from financial instruments, an entity shall disclose:

(a) the exposures to risk and how they arise;

(b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and

(c) any changes in (a) or (b) from the previous period.

33A The disclosures provided in accordance with paragraph 33 shall support and enhance the disclosures required by paragraphs 34 and 35.

Quantitative disclosures

34 For each type of risk arising from financial instruments, an entity shall disclose:

(a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in IAS 24 *Related Party Disclosures*), for example the entity's board of directors or chief executive officer.

(b) the disclosures required by paragraphs 36–42, to the extent not provided in <u>accordance with</u> (a)~~, unless the risk is not material (see paragraphs 29–31 of IAS 1 for a discussion of materiality)~~.

(c) concentrations of risk if not apparent from <u>the disclosures made in accordance with</u> (a) and (b).

35 If the quantitative data disclosed as at the end of the reporting period are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.

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Credit risk

36 An entity shall disclose by class of financial instrument:

(a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (eg netting agreements that do not qualify for offset in accordance with IAS 32); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.~~;~~

(b) ~~in respect of the amount disclosed in (a),~~ a description and the financial effect of collateral held as security and other credit enhancements (eg a description of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument).~~;~~

(c) information about the credit quality of financial assets that are neither *past due* nor impaired.~~; and~~

(d) [deleted] ~~the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.~~

Financial assets that are either past due or impaired

37 An entity shall disclose by class of financial asset:

(a) an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired; and

(b) an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired.~~; and~~

(c) [deleted] ~~for the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.~~

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Collateral and other credit enhancements obtained

38 When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (eg guarantees), and such assets meet the recognition criteria in other Standards, an entity shall disclose for such assets held at reporting date:

(a) the nature and carrying amount of the assets ~~obtained~~; and

(b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Effective date and transition

44H *Improvements to IFRSs* issued in [date] added paragraph 33A and amended paragraphs 34 and 36–38. An entity shall apply the amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

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Basis for Conclusions on proposed amendment to IFRS 7 *Financial Instruments: Disclosures*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

BC1 The Board proposes to emphasise the interaction between qualitative and quantitative disclosures about the nature and extent of risks arising from financial instruments. The Board noted that providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The Board concluded that an explicit emphasis on the interaction between qualitative and quantitative disclosures will contribute to disclosure of information in a way that better enables users to evaluate an entity's exposure.

BC2 The Board proposes to remove the reference to materiality in paragraph 34(b) of IFRS 7. The Board noted that the reference could imply that disclosures in IFRS 7 are required even if those disclosures are not material, which was not the Board's intention.

BC3 The Board proposes to clarify that the disclosure requirement in paragraph 36(a) applies only to financial assets whose carrying amounts do not show the reporting entity's maximum exposure to credit risk. The Board noted that such an approach is consistent with the approach taken in paragraph 29(a), which states that disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value. Moreover, the Board concluded that the requirement might be duplicative for assets that are presented in the statement of financial position because the carrying amount of these assets often represents the maximum exposure to credit risk. In the Board's view, the disclosure requirement should focus on the entity's exposure to credit risk that is not already reflected in the statement of financial position.

BC4 The Board proposes to delete the requirement in paragraph 36(d) to disclose the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated. The Board considered the difficulty in identifying financial assets whose terms have been renegotiated to avoid becoming past due or impaired (rather than for other commercial reasons). The Board noted that the current requirement was unclear about whether the requirement applies only to financial assets that were renegotiated in the current reporting period or whether past negotiations of those assets should be considered.

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Moreover, the Board was informed that commercial terms of loans are often renegotiated regularly for reasons that are not related to impairment. In practice it is difficult, especially for a large portfolio of loans, to ascertain which loans were renegotiated to avoid becoming past due or impaired. Hence, the Board proposes to delete the disclosure requirement in paragraph 36(d).

BC5 The Board considered the usefulness of disclosure of the fair value of collateral and other credit enhancements required in paragraph 37(c). The Board considered that within a class of assets some might be over-collateralised while others might be under-collateralised. Hence, aggregate disclosure of the fair value might be misleading. Therefore, the Board proposes to remove the requirement in paragraph 37(c) to disclose the fair value of collateral and other credit enhancements. However, the Board believes that information on the financial effect of such assets is useful to users. Hence, the Board proposes to require disclosure of the financial effect of collateral held as security and other credit enhancements in paragraph 36(b).

BC6 The Board proposes clarifying that entities need disclose only the amount of foreclosed collateral held at the reporting date in paragraph 38. The Board noted that this is consistent with the objective in IFRS 7 to disclose information that enables users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.

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Proposed amendment to guidance on implementing IFRS 7 *Financial Instruments: Disclosures*

A heading and paragraphs IG3 and IG4 are deleted (new text is underlined and deleted text is struck through).

Introduction

~~Materiality~~

IG3–IG4 [Deleted] ~~IAS 1 *Presentation of Financial Statements* notes that a specific disclosure requirement in an IFRS need not be satisfied if the information is not material. IAS 1 defines materiality as follows:~~

> ~~Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.~~

~~IG4 IAS 1 also explains that definition as follows:~~

> ~~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 *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25 that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.~~

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Proposed amendment to IAS 1 *Presentation of Financial Statements*

Introduction

The Board proposes the following amendment to IAS 1 *Presentation of Financial Statements*.

Clarification of statement of changes in equity

The Board proposes to amend IAS 1 to state explicitly that an entity shall present the components of changes in equity either in the statement of changes in equity or in the notes to the financial statements.

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Proposed amendment to IAS 1 *Presentation of Financial Statements*

Paragraphs 106 and 107 are amended (new text is underlined and deleted text is struck through). Paragraph 139D is added.

Structure and content

Statement of changes in equity

106 **An entity shall present a statement of changes in equity showing in the statement or in the notes:**

- **(a)** **total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;**
- **(b)** **for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8; and**
- **(c)** [deleted]
- **(d)** **for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:**
  - **(i)** **profit or loss;**
  - **(ii)** **each item of other comprehensive income; and**
  - **(iii)** **transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.**

107 **An entity shall present, either in the statement of equity or in the notes, ~~the amounts of dividends recognised as distributions to owners during the period and~~ the ~~related~~ amount per share of dividends recognised as distributions to owners.**

Transition and effective date

139D Paragraphs 106 and 107 were amended by *Improvements to IFRSs* issued in [date]. An entity shall apply that amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

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Basis for Conclusions on proposed amendment to IAS 1 *Presentation of Financial Statements*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Statement of changes in equity

BC1 The Board was asked to clarify its intention in paragraph 106(d) to require a reconciliation between the carrying amount (beginning and ending balances) for each component of other comprehensive income. Some respondents believed this requirement was excessive. In addition, some pointed out an inconsistency between the current wording of paragraph 106(d) and the example of the statement of changes in equity within the guidance on implementing IAS 1 *Part I: Illustrative presentation of financial statements*. The Board confirmed its intention to allow flexibility on the reconciliation requirements for classes of accumulated other comprehensive income. Therefore, the Board proposes to clarify that entities are permitted to present the reconciliation requirements for classes of accumulated other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

BC2 The Board also proposes to amend paragraph 107 in IAS 1 to remove a redundancy based on the amendment to paragraph 106(d).

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Proposed amendment to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Introduction

The Board proposes the following amendment to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Change in terminology to the qualitative characteristics

The Board proposes to amend IAS 8 to be consistent with the terminology changes made in the forthcoming conceptual framework that will replace the *Framework for the Preparation and Presentation of Financial Statements*.

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Proposed amendment to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraphs 10, 14 and 29 are amended (new text is underlined and deleted text is struck through). A footnote is added to paragraph 10. Paragraph 54A is added.

Accounting policies

Selection and application of accounting policies

10 **In the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in <u>financial</u> information that is <u>useful to existing and potential equity investors, lenders and other creditors in making decisions. To be useful, information shall</u>:**

(a) <u>be</u> relevant ~~to the economic decision-making needs of users~~; and

(b) <u>faithfully represent the transaction, other event or condition. Faithful representation of an economic phenomenon is attained when the depiction is complete, neutral and free from error.</u>* ~~reliable, in that the financial statements~~:

~~(i) represent faithfully the financial position, financial performance and cash flows of the entity;~~

~~(ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;~~

~~(iii) are neutral, ie free from bias;~~

~~(iv) are prudent; and~~

~~(v) are complete in all material respects.~~

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* In [date to be determined], the Board amended the terminology in this paragraph to be consistent with the terminology used in the *Framework* issued in 2009.

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Changes in accounting policies

14 **An entity shall change an accounting policy only if the change:**

(a) **is required by an IFRS; or**

(b) **results in the financial statements providing ~~reliable and~~ more relevant information ~~about~~ that faithfully represents the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.**

Disclosure

29 **When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:**

(a) **the nature of the change in accounting policy;**

(b) **the reasons why applying the new accounting policy provides ~~reliable and~~ more relevant information that faithfully represents the effects of the transactions, other events or conditions on the entity's financial position, financial performance or cash flows;**

(c) **...**

Effective date and transition

54A *Improvements to IFRSs* issued in [date] amended paragraphs 10, 14 and 29 and added a footnote to paragraph 10. An entity shall apply the amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

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Basis for Conclusions on proposed amendment to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Change in terminology to the qualitative characteristics

BC1 The Board and the US Financial Accounting Standards Board are jointly developing a new conceptual framework on financial reporting. As part of that project, the boards adopted new terminology for some of the qualitative characteristics of financial reporting. IAS 8 provides guidance to preparers of financial reports in developing and applying accounting policies when there are no specifically applicable IFRSs. That guidance is based on the qualitative characteristics in the *Framework*. Because this guidance is essential to the application of IAS 8, the Board decided that the paragraphs that refer to the qualitative characteristics should be updated to use the new terminology.

BC2 The Board also decided to review and update other IFRSs to use the new terminology when those IFRSs are being amended for other reasons.

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Proposed amendments to IAS 27 *Consolidated and Separate Financial Statements*

Introduction

The Board proposes the following amendments to IAS 27 *Consolidated and Separate Financial Statements*.

Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor

The Board proposes to clarify that in its separate financial statements the investor shall apply the provisions of IAS 39 *Financial Instruments: Recognition and Measurement* to test its investments in subsidiaries, jointly controlled entities and associates for impairment.

Transition requirements for amendments arising as a result of IAS 27 (as amended in 2008)

The Board proposes to clarify that the amendments as a result of IAS 27 made to IAS 21, IAS 28 and IAS 31 require prospective application.

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Proposed amendments to IAS 27 *Consolidated and Separate Financial Statements*

Paragraph 38 is amended (new text is underlined and deleted text is struck through) and paragraphs 38D and 45D are added.

Accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements

38 **When an entity prepares separate financial statements, it shall account for investments in subsidiaries, jointly controlled entities and associates either:**

(a) at cost, or

(b) at fair value through profit or loss,

each in accordance with IAS 39. The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with IFRS 5 ***Non-current Assets Held for Sale and Discontinued Operations*** **when they are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5. The measurement of investments accounted for at fair value through profit or loss in accordance with IAS 39 is not changed in such circumstances.**

38D When an entity prepares separate financial statements, it shall apply the requirements of IAS 39 for the determination and measurement of impairment losses on investments in subsidiaries, jointly controlled entities and associates.

Effective date and transition

45D Paragraph 38 was amended and paragraph 38D added by *Improvements to IFRSs* issued in [date]. An entity shall apply the amendment prospectively for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact. If an entity applies the related amendments in paragraph 2(h)–(j) of IAS 36 for an earlier period, it shall apply the amendment in this Standard at the same time.

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Appendix to proposed amendments to IAS 27 Amendments to other IFRSs

IAS 21 *The Effects of Foreign Exchange Rates*

Paragraph 60B is amended (new text is underlined) and paragraph 60C is added.

Effective date and transition

60B IAS 27 (as amended in 2008) added paragraphs 48A–48D and amended paragraph 49. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 July 2009. If an entity applies IAS 27 (amended 2008) for an earlier period, the amendments shall be applied for that earlier period.

60C Paragraph 60B was amended by *Improvements to IFRSs* issued in [date]. An entity shall apply that amendment for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies the amendment before 1 July 2010 it shall disclose that fact.

IAS 28 *Investments in Associates*

Paragraph 41B is amended (new text is underlined and deleted text is struck through) and paragraph 41D is added.

Effective date and transition

41B IAS 27 (as amended in 2008) amended paragraphs 18, 19 and 35 and added paragraph 19A. An entity shall apply the amendment to paragraph 35 retrospectively and the ~~those~~ amendments to paragraphs 18, 19 and 19A prospectively for annual periods beginning on or after 1 July 2009. If an entity applies IAS 27 (amended 2008) for an earlier period, the amendments shall be applied for that earlier period.

41D Paragraph 41B was amended by *Improvements to IFRSs* issued in [date]. An entity shall apply that amendment for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies this amendment before 1 July 2010 it shall disclose that fact.

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IAS 31 *Interests in Joint Ventures*

Paragraph 58A is amended (new text is underlined and deleted text is struck through) and paragraph 58C is added.

Effective date and transition

58A IAS 27 (as amended in 2008) amended paragraphs 45 and 46 and added paragraphs 45A and 45B. An entity shall apply the amendment to paragraph 46 retrospectively and the ~~those~~ amendments to paragraphs 45, 45A and 45B prospectively for annual periods beginning on or after 1 July 2009. If an entity applies IAS 27 (amended 2008) for an earlier period, the amendments shall be applied for that earlier period.

58C Paragraph 58A was amended by *Improvements to IFRSs* issued in [date]. An entity shall apply that amendment for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies the amendment before 1 July 2010 it shall disclose that fact.

IAS 36 *Impairment of Assets*

Paragraphs 2(h) and (i) are amended (new text is underlined and deleted text is struck through) and paragraphs 2(j) and 140F are added.

Scope

2 This Standard shall be applied in accounting for the impairment of all assets, other than:

(a) ...

(h) deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of IFRS 4 *Insurance Contracts*; ~~and~~

(i) non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*; and~~.~~

(j) investments in subsidiaries, jointly controlled entities and associates that are accounted for at cost in the separate financial statements of the investor.

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Transitional provisions and effective date

140F Paragraphs 2(h) and (i) were amended and paragraph 2(j) was added by *Improvements to IFRSs* issued in [date]. An entity shall apply the amendment prospectively for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the related amendment in paragraphs 38 and 38D of IAS 27 for an earlier period, it shall apply the amendment in this Standard at the same time.

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Basis for Conclusions on proposed amendments to IAS 27 *Consolidated and Separate Financial Statements*

Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor

BC1 The Board received a request to clarify whether in its separate financial statements the investor should apply the provisions of IAS 36 *Impairment of Assets* or IAS 39 *Financial Instruments: Recognition and Measurement* to test its investments in subsidiaries, jointly controlled entities, and associates for impairment. Paragraph 38 of IAS 27 permits an entity that prepares separate financial statements to account for investments in subsidiaries, jointly controlled entities and associates either at cost or in accordance with IAS 39. However, IAS 27 is silent on whether testing for impairment of those investments accounted for at cost should apply the requirements of IAS 36 or IAS 39.

BC2 The Board noted two views exist in current practice. The first view points out that if the investor elects to account for its investments in subsidiaries, jointly controlled entities and associates at cost, then those investments are not 'in accordance with IAS 39'. In accordance with this view, those investments at cost are precluded from applying IAS 39 and must apply IAS 36. The second view reiterates the Board's prior conclusions that the purpose of separate financial statements is on the performance of the assets as investments. Therefore, those who believe in the second view argue that in the separate financial statements of the investor, the testing for impairment of all investments in subsidiaries, jointly controlled entities and associates should be in accordance with IAS 39.

BC3 The Board agreed with the second view and concluded that in its separate financial statements the investor should apply the provisions of IAS 39 to test its investments in associates for impairment.

Transitional provisions (2008 amendments)

BC4 In the second phase of the Board's project on business combinations, the Board made consequential amendments to other standards. Some of those amendments are silent on transition. Paragraph 19 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires retrospective application for amendments that do not provide specific transition guidance.

BC5 The Board decided that an entity should apply some of the consequential amendments to other standards prospectively. The Board therefore proposes to amend paragraph 60B of IAS 21, paragraph 41B of IAS 28 and paragraph 58A of IAS 31 to require prospective application.

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Proposed amendment to IAS 28 *Investments in Associates*

Introduction

The Board proposes the following amendment to IAS 28 *Investments in Associates*.

Partial use of fair value for measurement of associates

The Board proposes to amend IAS 28 to clarify that different measurement bases can be applied to portions of an investment in an associate when part of the investment is designated at initial recognition as at fair value through profit or loss in accordance with the scope exception in paragraph 1 of IAS 28.

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Proposed amendment to IAS 28 *Investments in Associates*

Paragraphs 1A and 41E are added.

Scope

1A **If an entity determines in accordance with paragraphs 6–10 of this Standard that it has significant influence in an associate, the entity shall apply this Standard. If a portion of the investment in the associate qualifies for the scope exclusion in accordance with paragraph 1, the entity shall apply the scope exclusion only to the portion to which the scope exclusion applies. The remaining investment in the associate shall be accounted for in accordance with this Standard.**

Effective date and transition

41E Paragraph 1A was added by *Improvements to IFRSs* issued in [date]. An entity shall apply the amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

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Basis for Conclusions on proposed amendment to IAS 28 *Investments in Associates*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Scope exclusion: investments in associates held by venture capital organisations, mutual funds, unit trusts and similar entities

BC1 The Board received a request to clarify whether different measurement bases can be applied to portions of an investment in an associate when part of the investment is designated at initial recognition as at fair value through profit or loss in accordance with the scope exemption in paragraph 1 of the IAS 28. Paragraph 6 of IAS 28 is clear that the determination of significant influence includes both direct and indirect holdings. However, IAS 28 is silent on whether both those investments included in the scope of IAS 28 and those investments excluded from the scope of IAS 28 should be considered in establishing the existence of significant influence and the group's share in the associate.

BC2 The Board noted two views exist in current practice. The first view identifies all direct and indirect interests held in the associate by either the parent or any of its subsidiaries and then applies IAS 28 to the entire investment in the associate. In accordance with this view, there is only one investment in the associate and it should be accounted for as one unit. If not all of the investment qualifies for the scope exemption in paragraph 1 of IAS 28, the entire investment would be accounted for in accordance with IAS 28. The second view identifies all direct and indirect interests held in the associate, but then requires use of the scope criteria in IAS 28 to determine the proper accounting treatment for different portions of the investment, consistent with the business purposes for which those portions may be held.

BC3 The Board agreed with the second view and concluded that once an entity determines it has significant influence it should apply the provisions of IAS 28. If a portion of the investment in the associate qualifies for the scope exclusion in accordance with paragraph 1, the entity should apply the scope exclusion only to the portion to which the scope exclusion applies. The remaining investment in the associate should be accounted for in accordance with this Standard.

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Proposed amendment to IAS 34 *Interim Financial Reporting*

Introduction

The Board proposes the following amendment to IAS 34 *Interim Financial Reporting*.

Significant events and transactions

Many users of financial statements have asked the Board to consider whether some disclosure requirements should be mandated in both interim and annual financial statements. In particular, users proposed mandating some disclosure requirements within IFRS 7 *Financial Instruments: Disclosures* for interim financial reporting.

The Board proposes an amendment to emphasise the disclosure principles in IAS 34 and to add further guidance to illustrate how to apply these principles.

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Proposed amendment to IAS 34 *Interim Financial Reporting*

In the rubric, 'paragraphs 1–48' is amended to 'paragraphs 1–49'. A heading and paragraph 15 are amended (new text is underlined and deleted text is struck through). Paragraphs 15A, 15B and 15C are added. Paragraphs 16–18 are deleted. A heading and paragraph 16A are added. Paragraph 49 is added. Paragraphs 15B and 16A were previously paragraph 17 and 16, respectively, and have been marked up solely to show changes from the pre-existing text.

Content of an interim financial report

~~Selected explanatory notes~~ Significant events and transactions

15 ~~A user of an entity's interim financial report will also have access to the most recent annual financial report of that entity. It is unnecessary, therefore, for the notes to an interim report to provide relatively insignificant updates to the information that was already reported in the notes in the most recent annual report. At an interim date,~~ An entity shall include in its interim report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period ~~is more useful~~. Information disclosed in relation to those events and transactions should update the equivalent information presented in the most recent annual report.

15A A user of an entity's interim financial report will have access to the most recent annual financial report of that entity. Therefore, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual report.

15B ~~Examples of the kinds of disclosures that are required by paragraph 16 are set out below. Individual IFRSs provide guidance regarding disclosures for many of these items:~~ The types of events or transactions for which disclosures would be required are set out below. The list is not exhaustive.

(a) the write-down of inventories to net realisable value and the reversal of such a write-down;

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(b) recognition of a loss from the impairment of financial assets, property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;

(c) the reversal of any provisions for the costs of restructuring;

(d) acquisitions and disposals of items of property, plant and equipment;

(e) commitments for the purchase of property, plant and equipment;

(f) litigation settlements;

(g) corrections of prior period errors;

(h) [deleted] significant changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, notwithstanding whether these assets or liabilities are recognised at fair value or amortised cost;

(i) any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period; and

(j) related party transactions;

(k) significant transfers between levels of the fair value hierarchy in the measurement of the fair value of financial instruments;

(l) changes in the classification of assets as a result of a change in the purpose or use of those assets; and

(m) changes in contingent liabilities or contingent assets.

[contains text from pre-existing paragraph 17 marked up for amendments]

15C Individual IFRSs provide guidance regarding disclosure requirements for many of the items listed in paragraph 15B. When an event or transaction is significant to an understanding of the changes in an entity's financial position or performance since the last annual financial period, its interim financial report should provide an explanation of and an update to the relevant information included in the financial statements of the last annual financial period.

16–18 [Deleted]

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Other minimum disclosures

16A Notwithstanding the requirements in paragraphs 15–15C, ~~A~~ an entity shall include the following information, as a minimum, in the notes to its interim financial statements, ~~if material and~~ if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis. However, the entity shall also disclose any events or transactions that are ~~material~~ necessary to an understanding of the current interim period:

(a) a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change.~~;~~

(b) explanatory comments about the seasonality or cyclicality of interim operations.~~;~~

(c) the nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidence.~~;~~

(d) the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, ~~if those changes have a material effect in the current interim period~~.~~;~~

(e) iss~~uan~~ces, repurchases and repayments of debt and equity securities.~~;~~

(f) dividends paid (aggregate or per share) separately for ordinary shares and other shares.~~;~~

(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) revenues from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker.~~;~~

(ii) intersegment revenues, if included in the measure of segment profit or loss reviewed by the chief operating decision maker

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or otherwise regularly provided to the chief operating decision maker.~~;~~

(iii) a measure of segment profit or loss.~~;~~

(iv) total assets for which there has been a material change from the amount disclosed in the last annual financial statements.~~;~~

(v) a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss.~~;~~

(vi) a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items shall be separately identified and described in that reconciliation.~~;~~

(h) ~~material~~ events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.~~;~~

(i) the effect of changes in the composition of the entity during the interim period, including business combinations, obtaining or losing control of subsidiaries and long term investments, restructurings, and discontinued operations. In the case of business combinations, the entity shall disclose the information required by IFRS 3 ***Business Combinations*****. ~~; and~~**

~~(j) changes in contingent liabilities or contingent assets since the end of the last annual reporting period.~~

[contains text from pre-existing paragraph 16 marked up for amendments]

Effective date and transition

49 A header and paragraph 15 were amended, paragraphs 15A–15C and 16A were added and paragraphs 16–18 were deleted by *Improvements to IFRSs* issued in [date]. An entity shall apply the amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

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Basis for Conclusions on proposed amendment to IAS 34 *Interim Financial Reporting*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Significant events and transactions

BC1 IAS 34 was issued by the Board's predecessor body, the International Accounting Standards Committee (IASC), in 1998. In the light of recent improvements to disclosure requirements, many users of financial statements asked the Board to consider whether particular disclosures required by IFRS 7 *Financial Instruments: Disclosures* for annual financial statements should also be required in interim financial statements. The Board noted that although IAS 34 does not require specific disclosures, it sets out disclosure principles to determine what information should be disclosed in an interim financial report. The Board concluded that amending IAS 34 to place greater emphasis on these principles and the inclusion of additional examples relating to more recent disclosure requirements ie fair value measurements would improve interim financial reporting.

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Proposed amendment to IAS 40 *Investment Property*

Introduction

The Board proposes the following amendment to IAS 40 *Investment Property*.

Change from fair value model to cost model

The Board proposes to remove the requirement to transfer investment property carried at fair value to inventory when it will be developed for sale, to add a requirement for investment property held for sale to be displayed as a separate category in the statement of financial position and to require disclosures consistent with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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Proposed amendment to IAS 40 *Investment Property*

Paragraphs 57–60 are amended (new text is underlined and deleted text is struck through) and paragraphs 58A and 85C are added.

Transfers

57 **Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:**

- **(a)** **commencement of owner-occupation, for a transfer from investment property to owner-occupied property;**
- **(b)** <u>[deleted]</u> **~~commencement of development with a view to sale, for a transfer from investment property to inventories;~~**
- **(c)** **end of owner-occupation, for a transfer from owner-occupied property to investment property; or**
- **(d)** **commencement of an operating lease to another party, for a transfer from inventories to investment property.**
- **(e)** [deleted]

58 ~~Paragraph 57(b) requires an entity to transfer a property from investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale.~~ When an entity decides to dispose of an investment property ~~without development~~, it continues to treat the property as an investment property until it is derecognised (eliminated from the statement of financial position), and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

58A An entity that decides to dispose of an investment property shall:

- (a) apply IFRS 5 if the investment property meets the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale), or

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(b) continue to apply this Standard and shall provide the disclosures required by paragraphs 38 and 40–42 of IFRS 5 if the investment property does not meet the criteria to be classified as held for sale.

59 Paragraphs 60–65 apply to recognition and measurement issues that arise when an entity uses the fair value model for investment property. When an entity uses the cost model, transfers between investment property~~,~~ and owner-occupied property ~~and~~ or inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

60 For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's deemed cost for subsequent accounting in accordance with IAS 16 or IAS 2 shall be its fair value at the date of change in use.

Effective date and transition

85C Paragraphs 57–60 were amended and paragraph 58A was added by *Improvements to IFRSs* issued in [date]. An entity shall apply the amendment prospectively to all decisions to dispose of investment property made for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

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Basis for Conclusions on proposed amendment to IAS 40 *Investment Property*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Transfers

BC1 The Board identified potentially inconsistent guidance regarding the classification of an investment property when management intends to sell it. Some read the guidance in paragraph 58 as requiring the investment property to be classified as inventories in accordance with IAS 2 *Inventories*, whereas the guidance in paragraph 56 requires the investment property to be classified in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

BC2 The Board noted that the original classification of an asset as either investment property or inventory depends on the specific fact pattern of the entity. The Board noted that requiring investment property to remain within investment property after its initial classification is consistent with other changes of use for investment property, such as the treatment of investment property under construction and investment property that is redeveloped for continued use as investment property.

BC3 The Board concluded that continuing to measure the property using the measurement model previously selected in accordance with IAS 40 provided the most relevant information. In addition, the Board concluded that providing disclosures similar to those required by IFRS 5 gave comparable information about the intended sale of investment property regardless of whether further development was required before sale.

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Proposed amendment to IFRIC 13 *Customer Loyalty Programmes*

Introduction

The Board proposes the following amendment to IFRIC 13 *Customer Loyalty Programmes*.

Determination of fair value

The Board proposes to amend IFRIC 13 to clarify the meaning of the term 'fair value'.

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Proposed amendment to IFRIC 13 *Customer Loyalty Programmes*

Paragraph 10A is added.

Effective date and transition

10A Paragraph AG2 was amended by *Improvements to IFRSs* issued in [date]. An entity shall apply that amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

In the Appendix, paragraph AG2 is amended (new text is underlined and deleted text is struck through).

AG2 An entity may estimate the fair value of award credits by reference to the fair value of the awards for which they could be redeemed. The fair value of ~~these awards would be reduced to take~~ the award credits takes into account:

(a) the ~~fair~~ value of awards that would be offered to customers who have not earned award credits from an initial sale; and

(b) the proportion of award credits that are not expected to be redeemed by customers.

If customers can choose from a range of different awards, the fair value of the award credits will reflect the ~~fair~~ values of the range of available awards, weighted in proportion to the frequency with which each award is expected to be selected.

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Proposed amendment to illustrative examples accompanying IFRIC 13

Paragraph IE1 is amended (new text is underlined and deleted text is struck through). Paragraphs IE2–IE5 are not proposed for amendment but are included here for ease of reference.

Example 1 – Awards supplied by the entity

IE1 A grocery retailer operates a customer loyalty programme. It grants programme members loyalty points when they spend a specified amount on groceries. Programme members can redeem the points for further groceries. The points have no expiry date. In one period, the entity grants 100 points. Management estimates that each loyalty point can be redeemed for 1.25 currency units (CU1.25). Management expects only 80 of these points to be redeemed. Therefore, the fair value of each point is CU1, being the value of each loyalty point granted of CU1.25 reduced to take into account points not expected to be redeemed ((80 points/100 points) × CU1.25 = CU1). Accordingly, m ~~M~~anagement ~~estimates the fair value of each loyalty point to be one currency unit (CU1), and~~ defers recognition of revenue of CU100.

Year 1

IE2 At the end of the first year, 40 of the points have been redeemed in exchange for groceries, ie half of those expected to be redeemed. The entity recognises revenue of (40 points/80[*] points) × CU100 = CU50.

Year 2

IE3 In the second year, management revises its expectations. It now expects 90 points to be redeemed altogether.

IE4 During the second year, 41 points are redeemed, bringing the total number redeemed to 40[†] + 41 = 81 points. The cumulative revenue that the entity recognises is (81 points/90[§] points) × CU100 = CU90. The entity

[*] total number of points to be redeemed

[†] number of points redeemed in year 1

[§] revised estimate of total number of points expected to be redeemed

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has recognised revenue of CU50 in the first year, so it recognises CU40 in the second year.

Year 3

IE5 In the third year, a further nine points are redeemed, taking the total number of points redeemed to 81 + 9 = 90. Management continues to expect that only 90 points will ever be redeemed, ie that no more points will be redeemed after the third year. So the cumulative revenue to date is (90 points/90[*] points) × CU100 = CU100. The entity has already recognised CU90 of revenue (CU50 in the first year and CU40 in the second year). So it recognises the remaining CU10 in the third year. All of the revenue initially deferred has now been recognised.

[*] total number of points still expected to be redeemed.

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Basis for Conclusions on proposed amendment to IFRIC 13 *Customer Loyalty Programmes*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Measuring the fair value of award credits

BC1 The Board was made aware that paragraph AG2 could be interpreted to mean that the fair value of redemption awards is equal to the fair value of award credits because the term 'fair value' is used to refer to both the value of the award credits and the value of the awards for which the credits could be redeemed. To address this, the Board proposes to amend paragraph AG2 and Example 1 in the illustrative examples to clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the value of the awards for which they could be redeemed must be adjusted to reflect expected forfeitures.

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