Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Annual Improvements to Australian Accounting Standards 2015-2017 Cycle**	**Meeting**	AASB March 2017 (M156)
Topic:	**Consider whether to comment on IASB ED/2017/1**	**Agenda Item:**	5.1
Contact(s):	James Barden jbarden@aasb.gov.au (03) 9617 7643 Evelyn Ling eling@aasb.gov.au (03) 9617 7631	**Project Priority:** **Decision-Making:** **Project Status:**	Low High Initial consideration

Introduction and objective of this paper

1 The objective of this paper is to obtain the Board's decision on whether to comment on IASB ED/2017/1 *Annual Improvements to IFRS Standards 2015-2017 Cycle*. The IASB ED is open for comment until 12 April 2017.

2 The IASB ED proposes to clarify the:

(a) income tax consequences of payments on financial instruments classified as equity;

(b) extent of borrowing costs eligible for capitalisation; and

(c) accounting for long-term interests in an associate or joint venture.

3 The AASB incorporated IASB ED/2017/1 into AASB ED 276 *Annual Improvements to Australian Accounting Standards 2015-2017 Cycle* (issued in January 2017), which closed for comment on 8 March 2017. As at 10 March 2017, the AASB had received no comment letters.

Link to IASB project summary

4 IASB project summary: http://www.ifrs.org/Current-Projects/IASB-Projects/Annual-Improvements/Pages/Annual-Improvements-2015-2017-landing.aspx

Attachments

Agenda Paper 5.2 AASB ED 276 *Annual Improvements to Australian Accounting Standards 2015-2017 Cycle*

Summary of staff recommendations

5 Staff recommend the Board does not make a submission to the IASB on ED/2017/1.

Proposed amendments in IASB ED/2017/1

6 The proposals in IASB ED/2017/1 aim to address a number of constituent requests by way of narrow scope amendments to IAS 12 *Income Taxes*, IAS 23 *Borrowing Costs*, IAS 28 *Investments in Associates and Joint Ventures*. Consequential amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standard* and IAS 32 *Financial Instruments: Presentation* are also proposed.

7 **IAS 12.** Paragraph 52B of IAS 12 requires the income tax consequences of dividends to be recognised when a liability to pay the dividend is recognised and the income tax consequences of dividends are recognised in profit or loss for the period (with some exceptions) as they are more directly linked to past transactions or events than to distribution to owners. Applying the requirements of paragraph 52B, an entity recognises the income tax consequences of dividends where it has recognised the transactions or events that generated distributable profits.

8 The proposed amendments to IAS 12 clarify that the requirements of paragraph 52B of IAS 12 apply beyond the circumstances given in paragraph 52A of IAS 12, which addresses circumstances when there are different tax rates for distributed and undistributed profits. The requirements in paragraph 52B are proposed to be relocated as paragraph 58A, which would follow paragraph 58, to clarify that the requirements (1) are not exclusive to the circumstances in paragraph 52A; and (2) apply to all income tax consequences of dividends.

9 The effective date of the amendments to IAS 12 is to be decided after exposure. The proposed amendments are to apply retrospectively.

10 **IAS 23.** The proposed amendments to IAS 23 clarify that when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made specifically to obtain that qualifying asset as part of the funds that it has borrowed generally. The IASB observed that, as presently worded, an entity might interpret paragraph 14 of IAS 23 to mean that funds borrowed generally would exclude funds outstanding that were originally borrowed specifically to obtain a qualifying asset that is now ready for its intended use or sale.

11 The effective date of the amendments to IAS 23 is to be decided after exposure. The proposed amendments would only apply to borrowing costs incurred on or after the date of first applying the amendments.

12 **IAS 28.** The proposed amendments to IAS 28 clarify that an entity is required to apply IFRS 9 *Financial Instruments,* including its impairment requirements, to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied. The proposed amendments arise from a constituent concern that it was unclear whether IFRS 9 or IAS 28 would apply to the accounting of long-term interests as:

(a) paragraph 2.1(a) of IFRS 9 states that the scope of IFRS 9 excludes interests in associates and joint venture that an entity accounts for in accordance with IAS 28; however,

(b) paragraph 38 of IAS 28 explains that interests in an associate or joint venture subject to the allocation of losses are: (a) investments that an entity accounts for using the equity method; and (b) long-term interests.

The IASB considered, having regard to the existing requirements of IAS 28 and IFRS 9, that IFRS 9 excludes only those interests in an associate or joint venture to which the equity method is applied. Accordingly, the proposed amendments to IAS 28 clarify that an entity applies IFRS 9 to long term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

13 The proposed amendments are to apply retrospectively. However, the IASB has proposed transitional relief from applying the proposed amendments to the comparative period, to align with transitional relief on adopting IFRS 9 and having regard to the proposed effective date of the amendments.

14 The IASB proposes the effective date of the proposed amendments to IAS 28 be aligned with the effective date of IFRS 9, which is 1 January 2018. This would allow entities to benefit from being able to:

(a) use the transition reliefs in IFRS 9; and

(b) incorporate the amendments into their IFRS 9 implementation plans.

Staff analysis and recommendation

15 Overall, staff <u>support</u> the proposed amendments. Having regard to the nature of the amendments, staff are not aware that the proposed amendments would cause any significant issues for Australian entities (however, see paragraph 16(b) below).

16 Staff note that as at 10 March 2017, the IASB had received three comment letters, of which none were from Australian constituents. In addition, AASB staff are aware of one draft comment letter from the European Financial Reporting Advisory Group (EFRAG). Respondents to IASB generally agreed with the proposed amendments, however, raised the following concerns:

(a) in relation to the amendments to IAS 12:

(i) two respondents[1] commented that, whilst they agreed with the amendments, the IASB should increase the scope to include more clarification of whether payments are distributions of profit or are other distributions to owners/shareholders; and

(ii) one respondent did not support the retrospective application, due to the costs involved giving rise to little or no benefit.

[1] European Financial Reporting Advisory Group and Accounting Standards Committee of Germany

(b) in relation to the amendments to IAS 23, one respondent[2] did not agree with the amendments and is of the view that all borrowing costs should be expensed; and

(c) in relation to the amendments to IAS 28:

(i) one respondent[3] requested the IASB to specify types of interests that form part of the net investment;

(ii) two respondents[4] requested that the IASB include further examples and guidance illustrating the application of the proposed amendments; and

(iii) two respondents[4] disagreed with the proposed application date, as they believe it does not give enough preparation time, particularly for jurisdictions that employ an endorsement scheme.

17 Consequently, in view of staff resourcing and project prioritisation, staff recommend that the Board does not comment on ED/2017/1. In forming its recommendation, staff gave consideration to the following:

(a) the minor/clarification nature of the proposed amendments;

(b) staff have not identified any application issues for not-for-profit entities. However, staff note that given the effective date of the amendments to AASB 112 and AASB 128 in AASB 1058 *Income of Not-for-Profit Entities* being 1 January 2019, if the IASB were to require the amendments proposed above to be applicable before this date, the AASB may want to similarly amend the application date to 1 January 2019 for not-for-profit entities;

(c) the proposals do not amend or propose any additional disclosures; accordingly, there are no Tier 2 considerations that need to be made.

Question 1 for Board members

Do Board members agree with staff recommendation for the Board not to comment on IASB ED/2017/1 *Annual Improvements to IFRS Standards 2015-2017 Cycle*?

Next steps

18 The next steps are dependent on the Board's decisions at this meeting, however will include staff continuing to monitor the IASB project.

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[2] Collaborative Technical Cell (India)

[3] Crowe Horwath (United Kingdom)

[4] European Financial Reporting Advisory Group and Accounting Standards Committee of Germany