Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Annual Improvements 2015–2017 Cycle**	**Meeting**	AASB February 2018 (M162)
Topic:	**Consider how to finalise ED 275 and ED 276**	**Agenda Item:**	6.1
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Objective of this paper

1 The objective of this paper is to seek the Board's decision as to how to finalise one of the proposals exposed in AASB ED 275 *Definition of a Business and Accounting for Previously Held Interests* (issued in June 2016) and the outstanding proposals exposed in AASB ED 276 *Annual Improvements to Australian Accounting Standards 2015–2017 Cycle* (issued in January 2017).

Attachments

Agenda Paper 6.2 Ballot Draft of Accounting Standard AASB 2018-X *Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle*

Background to ED 275 proposals

2 AASB ED 275 incorporates IASB ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests* (issued in June 2016), which included proposed amendments to IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements* to clarify:

(a) the definition of a business and the related application guidance[1]; and

(b) the accounting for previously held interests in particular situations:

(i) when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring at fair value previously held interests in assets and liabilities relating to the joint operation; and

1 The IASB is finalising the proposals on the definition of a business separately in the narrow-scope project *Definition of a Business* (Amendments to IFRS 3). Those proposals are not addressed in this agenda item.

(ii) when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in the assets and liabilities relating to the joint operation.

Summary of feedback received on the ED

~~3~~ The AASB tentatively decided at its August 2016 meeting not to make a submission to the IASB on ED/2016/1, generally agreeing with the proposed amendments. The AASB received two comment letters on ED 275, from HoTARAC and CPA Australia[2]. The respondents broadly agreed with and supported the proposed amendments to the accounting for previously held interests.

4 The IASB received 80 comment letters on ED/2016/1 from its worldwide constituents[3], of which 67 addressed the proposed amendments on accounting for previously held interests. Two of the submissions were from Australia – CPA Australia and The Group of 100, both of which supported the proposed amendments to IFRS 3 and IFRS 11. The feedback from the 67 respondents is summarised below.

5 *The proposed amendments to IFRS 3 – previously held interests when obtaining control of a business that is a joint operation*. Most respondents agreed with the proposed amendments, saying that the proposed amendments would be consistent with the existing requirements in IFRS 3; result in consistent accounting across different forms of business combination achieved in stages; and help reduce diversity in practice. The main issues identified by some respondents were the scope and timing of the project; consistency between the proposed amendments in IFRS 3 and IFRS 11; and clarification of 'previously held interests'.

6 *The proposed amendments to IFRS 11 – previously held interests when obtaining joint control of a business that is a joint operation*. Most respondents agreed with the proposed amendments, saying that the proposed amendments would improve the clarity of previous amendments to IFRS 11; be consistent with the existing requirements in IAS 28 *Investments in Associates and Joint Ventures*; and help reduce diversity in practice. The main issues identified by some respondents were the scope and timing of the project; consistency between the proposed amendments to IFRS 3 and IFRS 11; and the significance of obtaining joint control of a joint operation.

7 *The proposed transition requirements*. Almost all respondents agreed with the proposed transition requirements: applying the proposed amendments to IFRS 3 and IFRS 11 prospectively to transactions that occur on or after the effective date, with earlier application permitted. Also, those respondents said that retrospective application would be difficult without hindsight and costly, and thus likely to outweigh the benefits.

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2 The comment letters on ED 275 are available on the AASB's website at http://www.aasb.gov.au/DirectLink.aspx?id=2043.

3 The comment letters on ED/2016/1 are available on the IFRS Foundation's website at http://www.ifrs.org/projects/2017/previously-held-interests-in-a-joint-operation/comment-letters-projects/ed-remeasurement-of-previously-held-interests/.

Decisions made by the IASB

8 At its April 2017 meeting, the IASB analysed feedback on the proposed amendments to IFRS 3 and IFRS 11 on accounting for previously held interests and decided to finalise those amendments with no substantive changes. At its September 2017 meeting, the IASB decided to finalise the amendments to IFRS 3 and IFRS 11 as part of the Annual Improvements 2015–2017 Cycle.

Background to ED 276 proposals

9 AASB ED 276 incorporates IASB ED/2017/1 *Annual Improvements to IFRS Standards 2015–2017 Cycle* (issued in January 2017), which included proposed amendments to IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs* to clarify that:

(a) in IAS 12 – the requirements in paragraph 52B apply not only in circumstances described in paragraph 52A (i.e. when there are different tax rates for distributed and undistributed profits), but to all income tax circumstances of dividends; and

(b) in IAS 23 – 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.

10 AASB ED 276 and IASB ED/2017/1 also proposed amendments to IAS 28 *Investments in Associates and Joint Ventures*. Those amendments were addressed by the AASB in 2017, resulting in the issuance of AASB 2017-7 *Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures* in December 2017.

Summary of feedback received on the ED

11 The AASB has not received any comment letters on ED 276. At its March 2017 meeting, the AASB tentatively decided not to make a submission to the IASB on ED/2017/1, supporting the proposed amendments.

12 The IASB has received 51 comment letters on ED/2017/1 from its world-wide constituents[4]; no comments were received from Australian constituents.

13 *The proposed amendments to IAS 12.* Most respondents agreed with the proposed amendments, saying that the proposed amendments would improve the clarity of the existing requirements in IAS 12; result in consistent accounting for income tax consequences of dividends; and help reduce diversity in practice. The main issues identified by some respondents were how to determine whether payments are distributions of profits (i.e. dividends); and retrospective application of the amendments.

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4 The comment letters on ED/2017/1 are available on the IFRS Foundation's website at http://www.ifrs.org/projects/2017/ias-12-income-tax-consequences-of-financial-instruments-classified-as-equity/comment-letters-projects/exposure-draft-annual-improvements-2015-2017/ and http://www.ifrs.org/projects/2017/borrowing-costs-eligible-for-capitalisation/comment-letters-projects/exposure-draft-annual-improvements-2015-2017/.

14 *The proposed amendments to IAS 23*. Most respondents agreed with the proposed amendments, saying that the proposed amendments would be consistent with, and improve the clarity of, the existing requirements in IAS 23; and help reduce diversity in practice. The main issues identified by some respondents were consistency with, and clarification of, the existing principle in IAS 23; and borrowings made specifically to obtain an asset other than a qualifying asset.

Decisions made by the IASB

15 At its July 2017 meeting, the IASB analysed feedback on the proposed amendments to IAS 12 and IAS 23 and decided to finalise those amendments with the only substantive change relating to the transition requirements for the amendments to IAS 12.

16 The IASB initially proposed retrospective application of the amendments to IAS 12. Having considered the feedback, the IASB decided that an entity should apply the amendments prospectively to income tax consequences of dividends recognised on or after the beginning of the earliest reporting period presented.

17 At its September 2017 meeting, the IASB confirmed that the amendments to IAS 12 and IAS 23 meet the criteria for annual improvements and decided to finalise those amendments without re-exposure.

The annual improvements

18 The IASB issued the IFRS Standard *Annual Improvements to IFRS Standards 2015–2017 Cycle* in December 2017, which includes the following four narrow-scope amendments:

(a) IFRS 3 *Business Combinations* – clarifying that an entity remeasures its previously held interest in a joint operation when it obtains control of the business;

(b) IFRS 11 *Joint Arrangements* – clarifying that an entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the business;

(c) IAS 12 *Income Taxes* – clarifying that an entity accounts for all income tax consequences of dividend payments according to where the entity originally recognised the past transactions or events that generated the distributable profits; and

(d) IAS 23 *Borrowing Costs* – clarifying that an entity treats any borrowing originally made to develop a qualifying asset as part of general borrowings when the asset is ready for its intended use or sale.

19 The IASB set an effective date of annual reporting periods beginning on or after 1 January 2019, with earlier application permitted.

Staff recommendations

20 AASB staff support the amendments made by the IASB. Staff are not aware that the proposed amendments would cause any significant issues for Australian entities. Staff do not consider that any not-for-profit (NFP) or public sector specific modification is needed as the amendments are clarifications to existing requirements that apply to both for-profit and not-for-profit entities.

21 Acknowledging the feedback received by the AASB and the basis for the IASB's decisions, staff recommend the AASB finalise the projects by making an amending standard incorporating the IASB's Standard *Annual Improvements to IFRS Standards 2015–2017 Cycle*.

22 Therefore, the staff recommend that Board members vote to make Accounting Standard AASB 2018-X on the basis of the ballot draft provided as Agenda Paper 6.2. In accordance with our usual practice, the amendments to the IASB's Bases for Conclusions would be published on the AASB website as IASB supporting material, accessible only to website users in Australia (as per our copyright agreement with the IASB).

Question for Board members

Do Board members agree with the staff recommendation to issue an Amending Standard AASB 2018-X incorporating the IASB's Standard *Annual Improvements to IFRS Standards 2015–2017 Cycle*?