

Analysis of IASB Annual Improvements to IFRSs

The IASB issued *Annual Improvements to IFRSs 2010-2012 Cycle* and *Annual Improvements to IFRSs 2011-2013 Cycle* in December 2013. The amendments are applicable to annual periods beginning on or after 1 July 2014. In the Tables below, staff have analysed the final IASB pronouncements against the related Exposure Drafts and the AASB comment letters to the IASB.

Table 1 lists the key issues to be considered by the Board. Table 2 lists other differences between the final pronouncement and the IASB Exposure Drafts (for Board information).

Table 1: Key issues to be considered by the Board

No	Standard/ Topic	Exposure Draft: AASB Comment/Issue	Final Annual Improvement	Staff view
Part 1A: Issues raised by the AASB				
Annual Improvements 2010-2012 Cycle (AASB ED 225)				
1	IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i> Revaluation method – proportionate restatement of accumulated depreciation	The AASB recommended omitting the references to ‘observable market data’ in the proposed amended text (refer to IAS 16.35 and IAS 38.80 in IASB ED/2012/1) as it considered that the appropriateness of non-proportionate restatements of the gross amounts of assets is unrelated to whether observable market data exists, and because the wording of the sentence could be interpreted to restrict the application of non-proportionate restatements.	The final wording of the Annual Improvement is, in the main, as exposed (refer to IAS 16.35 and IAS 38.80 in Agenda Paper 8.3). (i.e. AASB concern has not been addressed)	On reflection, staff consider that the concern noted in the AASB submission may be alleviated by the use of “for example” in the sentence in which this reference appears. Staff agree with the final amendment.
Annual Improvements 2011-2013 Cycle (AASB ED 229)				
2	IAS 40 <i>Investment Property</i> Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property	The AASB did not support the proposed amendment to IAS 40 as it considered that it would not adequately address the fundamental need to improve the definition of a business in IFRS 3. The AASB recommended the IASB should consider the definition of a business and supporting guidance in IFRS 3, possibly through the post-implementation review of IFRS 3.	The Annual Improvement has been finalised mainly as exposed. (i.e. AASB concern has not been addressed)	Staff recommend adopting the final IASB wording without amendment consistent with the AASB’s IFRS convergence policy. Staff further recommend the Board raises concerns about the definition of a business and supporting guidance in IFRS 3 in its submission to the IASB on the Request for Information <i>Post-Implementation review: IFRS 3 Business Combinations</i> .

No	Standard/ Topic	Exposure Draft: AASB Comment/Issue	Final Annual Improvement	Staff view
3	<p>IAS 40 <i>Investment Property</i> Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property</p>	<p>Proposed prospective application of the amendment. In the AASB comment letter, it was expressed that some AASB members consider that prospective application of the amendment to IAS 40 is not suitable as the amendment clarifies a previous requirement and, therefore, if it has not been complied with, an entity should correct the error retrospectively.</p>	<p>Prospective application still required, however in acknowledgement of the ‘clarification’ argument (refer IAS 40.BC22), an entity <u>may</u> choose to apply the amendment to certain previous acquisitions of investment property. (i.e. AASB concern has not been addressed)</p>	<p>Consistent with the AASB’s comment letter, staff disagree with the decision to <u>permit</u> retrospective application rather than <u>require</u> retrospective application (where practicable), and continue to question why prospective application would be permitted if the amendment is only clarification. However, staff recommend adopting the final IASB wording without amendment to be consistent with the AASB’s IFRS convergence policy.</p>
4	<p>IAS 40 <i>Investment Property</i> Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property</p>	<p>In its submission to the IASB, the AASB noted its concern that the phrase “this judgment [whether the transaction is the acquisition of assets or a business combination] is not based on paragraphs 7-15 of IAS 40 but instead based on the guidance in IFRS 3” in the IASB’s Basis for Conclusions to the amendment ignores the fact that the distinguishing characteristics of an investment property could be relevant in applying IFRS 3’s definition of a business. (text in [] added)</p>	<p>New paragraph IAS 40.14A and the related Basis of Conclusions paragraph, IAS 40.BC20, were finalised mainly as exposed. (i.e. AASB concern has not been addressed)</p>	<p>Staff note that the IASB Basis for Conclusions accompanies, but is not a part of, the Standard. Staff recommend adopting the final IASB wording without amendment. However, staff also recommend that the Board raise this concern again to the IASB as part of its submission on the Request for Information <i>Post-Implementation review: IFRS 3 Business Combinations</i>.</p>

No	Standard/ Topic	Exposure Draft: AASB Comment/Issue	Final Annual Improvement	Staff view
Part 1B: Other issues				
<i>Annual Improvements 2010-2012 Cycle (AASB ED 225)</i>				
1	IFRS 9 <i>Financial Instruments</i> Consequential from IFRS 3 <i>Business Combinations – Accounting for contingent consideration in a business combination</i>	Proposed amending IFRS 9 to note that contingent consideration that is a financial asset cannot be measured at amortised cost. Proposed that contingent consideration that is a financial liability be subsequently measured as though it had been measured as at fair value through profit or loss at initial recognition.	The final Annual Improvement no longer amends the classification of financial assets as the IASB concluded that it would be not be possible for contingent consideration that is a financial asset to be subsequently measured at amortised cost. As highlighted to the Board in April 2013, ¹ contingent consideration that is a financial liability is to be measured at fair value through profit or loss. Accordingly, gains and losses attributable to changes to own credit risk are also recognised in profit or loss.	Staff agree with the final amendments.
<i>Annual Improvements 2011-2013 Cycle (AASB ED 229)</i>				
2	IFRS 3 <i>Business Combinations</i> Scope exceptions for joint ventures	Proposed retrospective application, in accordance with IAS 8, for annual periods beginning on or after 1 January 2014.	Requires prospective application for annual periods beginning on or after 1 July 2014. The IASB's reasoning for prospective application is to be consistent with the prospective initial application of IFRS 3 (IFRS 3.BC434E).	Staff disagree with the IASB rationale for requiring prospective application as staff consider that these amendments could only ever had applied retrospectively in the context of the application date of IFRS 3 itself. However, staff recommend adopting the final IASB wording without amendment.

¹ http://www.aasb.gov.au/admin/file/content102/c3/M130_4.2_Staff_Summary_IFRIC_Decisions_March_2013.pdf

Table 2: Other differences between the final pronouncements and the IASB Exposure Drafts (for Board information)

No	Standard/ Topic	Exposure Draft	Final Annual Improvement	Staff view
<i>Annual Improvements 2010-2012 Cycle (AASB ED 225)</i>				
1	IFRS 2 <i>Share-based Payment</i> Definition of vesting condition	Full retrospective application proposed	Prospective application required from grant date 1 July 2014. IFRS 2.BC370 notes that this is to avoid the use of hindsight in cases where the changes in the defined terms resulted in changes to previous grant date fair values.	On reflection, staff agree with the final amendment.
2	IFRS 2 <i>Share-based Payment</i> Definition of vesting condition	Did not propose amending the definition of ‘market condition’	‘Market condition’ amended to acknowledge: <ul style="list-style-type: none"> market conditions are performance conditions a market condition includes a service condition the terms could be related to the market price <u>or value</u> of equity instruments the equity instruments could belong to another group member. 	Staff agree with the final amendment.
3	IFRS 2 <i>Share-based Payment</i> Definition of vesting condition	Added a definition of ‘performance condition’	The definition of a ‘performance condition’ has been extended to acknowledge that a: <ul style="list-style-type: none"> performance target does not end after the service period and cannot start substantially before the commencement of the service period performance target could be defined by reference to the operations or equity instruments of another group member 	Staff agree with the final amendment, but consider that it would have been preferable to keep the defined term succinct, with the additional text accompanying, rather than being part of, the defined term.
4	IFRS 2 <i>Share-based Payment</i> Definition of vesting condition	Added a definition of ‘service condition’	The wording of the defined term has been extended slightly to read: ‘A vesting condition that requires the counterparty to complete a specified period of service <u>during which services are provided to the entity</u> . If the counterparty ...’	Staff agree with the final amendment.

No	Standard/ Topic	Exposure Draft	Final Annual Improvement	Staff view
5	IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i> Revaluation method – proportionate restatement of accumulated depreciation	Full retrospective application proposed	Comparative information need only be adjusted in respect of the immediately preceding period presented, as the IASB was concerned that the costs of full retrospective application might outweigh its benefits. An entity may also present adjusted comparative information for an earlier period, but is not required to do so. Certain disclosures are required where any unadjusted comparative information is presented.	On reflection, staff agree with the final amendment.
6	IAS 24 <i>Related Party Disclosures</i> Key management personnel	Proposed an additional related party, being: ‘The entity, or a member of its group, provides key management personnel services to the reporting entity.’	Definition broadened slightly as follows: ‘The entity, or a member of its group, provides key management personnel services to the reporting entity <u>or to the parent of the reporting entity</u> ’.	Staff agree with the final amendment.
Annual Improvements 2011-2013 Cycle (AASB ED 229)				
6	IFRS 13 <i>Fair Value Measurement</i> Scope of IFRS 13.52 (portfolio exception)	Proposed retrospective application, in accordance with IAS 8, for annual periods beginning on or after 1 January 2014.	Requires prospective application from the beginning of the annual period in which IFRS 13 was initially applied. The IASB’s reasoning for prospective application of the amendment is to be consistent with the prospective initial application of IFRS 13 (IFRS 13.BC230A).	Staff consider that the manner in which the prospective application is worded has the same effect as the retrospective application proposed in the IASB ED. Staff recommend adopting the final IASB wording without amendment.