



<b>To:</b>	AASB members	<b>Date:</b>	23 August 2011
<b>From:</b>	Huy Pham	<b>Agenda Item:</b>	10.1
<b>Subject:</b>	AASB ED 213 <i>Improvements to IFRSs</i>	<b>File:</b>	

## Action

Consider key issues the Board may wish to raise in its comment letter in response to the IASB's Exposure Draft ED/2011/2 *Improvements to IFRSs*.

## Attachments

Agenda item 10.2 AASB ED 213 *Improvements to IFRSs*.

Agenda item 10.3 Submissions on AASB ED 213. (As at the date of this Memorandum, one response has been received.)

## Background

The IASB issued ED/2011/2 in June 2011 as part of its Annual Improvements project (with a proposed effective date of 1 January 2013). Comments on the Exposure Draft are due by 21 October 2011. AASB ED 213 *Improvements to IFRSs*, incorporating ED/2011/2, was issued in July 2011 with comments due by 6 September 2011.

The Australian NFP specific issues acknowledged in the Preface of AASB ED 213 are not addressed in this Memorandum as the focus is on determining the broad thrust of the response to the IASB, which does not address NFP issues. We intend considering NFP issues in the process of incorporating any improvements that arise from this project into Australian Accounting Standards.

The Appendix to this Memorandum contains a summary of the IASB's proposed amendments and our view on each. In forming our views, staff have considered comments from constituents and draft responses from other accounting standard setters. Staff intend drafting a comment letter out of session, based on the AASB's views expressed at the forthcoming meeting.

### Summary of staff views

Staff are generally supportive of all the proposed amendments in the Exposure Draft. However, we think it might be worth commentating to the IASB a caution that in drafting improvements, care should be taken to adopt a principles-based approach. We have some concerns that some of the proposed drafting [eg related to servicing equipment (see page 22 of Agenda item 10.2)] perpetuates a rules-based approach. Perhaps a more principles-based approach would not make explicit reference to particular types of equipment.

## 1. Summary of Exposure Draft ED/2011/2 *Improvements to IFRSs*

Standard	Proposed Amendment	Issues/Comments
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	<p><b>Repeated application of IFRS 1:</b> Clarify that an entity is required to apply IFRS 1 when the entity's most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRSs, even if the entity applied IFRS 1 in a reporting period before the period reported in the most recent previous annual financial statements.</p>	<p>Staff agree with this proposed amendment. We note that the European Financial Reporting Advisory Group (EFRAG) suggests adding a requirement for entities to disclose when they are adopting IFRS 1 for a second time along with the reason for stopping and resuming reporting under IFRSs. We acknowledge this suggestion but are wary about adding further disclosure requirements through an improvements project and therefore do not recommend including the same suggestion.</p> <p>We acknowledge some may argue that in situations where an entity's previous national GAAP is identical in recognition and measurement but not disclosure requirements to IFRSs, it should be relieved from applying IFRS 1. However, we do not recommend advocating such an approach, noting that AASB 1053 <i>Application of Tiers of Australian Accounting Standards</i> already addresses the issue in an Australian context.</p>
	<p><b>Clarification of borrowing costs:</b> Clarify that an entity that capitalised borrowing costs in accordance with its previous GAAP before the date of transition to IFRSs may carry forward without adjustment the amount previously capitalised in the opening statement of financial position at the date of transition. In addition, clarify that borrowing costs incurred after the date of transition that relate to qualifying assets under construction at the date of transition should be accounted for in accordance with IAS 23 <i>Borrowing Costs</i>.</p>	<p>Staff agree with these proposed amendments.</p>
IAS 1 <i>Presentation of Financial Statements</i>	<p><b>Clarification of requirements for comparative information: Additional non-mandatory financial statements:</b> Amend IAS 1 to clarify the requirements for providing comparative information when an entity provides financial statements beyond the minimum comparative information requirements. Entities are not required to present a complete set of financial statements when presenting additional financial statements. When additional statements are presented however, the related notes for this statement must also be presented.</p> <p><b>Accounting policy changes or retrospective restatements or reclassifications:</b> Address two aspects of the requirements in specific cases where an entity changes accounting policies, or makes retrospective restatements or reclassifications. The proposed changes are:</p>	<p>Staff agree with the proposed amendments for when accounting policy changes or retrospective restatements or reclassifications are made. These were supported in comments received from a constituent (see agenda item 10.3 submission 1). We also agree with the clarification to not require a complete set of financial statements when additional statements are provided. However, we are concerned that requiring the notes relating to any additional financial statements to be presented is more onerous than the changes made to comparative information when accounting policy changes or retrospective restatements or reclassifications are made. We disagree with requiring all the notes when a voluntary additional statement is presented but only requiring the notes affected by accounting policy changes, retrospective restatements or reclassifications when a mandatory additional statement is provided – we think the latter is a more reasonable requirement.</p> <p>A constituent also suggested that the IASB consider the basis for requiring an additional statement of financial position when there is a change in accounting policy, retrospective</p>

## Appendix

Standard	Proposed Amendment	Issues/Comments
	<p>(a) the opening statement of financial position should be presented as at the beginning of the required comparative period; and</p> <p>(b) related notes are not required to accompany this opening statement of financial position other than those affected by the changes, retrospective restatements or reclassifications.</p> <p><b>Consistency with the updated <i>Conceptual Framework</i>:</b> Update the objective of financial statements to be the objective of financial reporting to reflect the <i>Conceptual Framework</i> that was issued in September 2010. Wording on the characteristics of users has also been updated.</p>	<p>reclassification or restatement that does not impact on the statement of financial position. We note that, in practice, some are currently interpreting that the requirement to provide an additional statement of financial position only applies when the accounting policy change or retrospective restatement or reclassification affects that statement of financial position. The staff tentative view is that an additional statement of financial position should not be required if there is no impact on it, but we do not think it is necessary to explicitly address this issue as part of the Annual Improvements project.</p> <p>Staff agree with these proposed amendments.</p>
<p>IAS 16 <i>Property, Plant and Equipment</i></p>	<p><b>Clarification of servicing equipment:</b> Clarify that servicing equipment should be classified as property, plant and equipment when it is used during more than one period and as inventory otherwise. The restriction requiring spare parts and servicing equipment to be used only in connection with an item of PPE is also removed.</p>	<p>Staff accept these proposed amendments. However, as noted in the covering memo, we hold some reservations over the need to provide specific rules for servicing equipment when the general principles for PPE and Inventory should be sufficient.</p>
<p>IAS 32 <i>Financial Instruments: Presentation</i></p>	<p><b>Clarification of income tax consequences:</b> Amend IAS 32 to clarify that income tax relating to distributions to holders of an equity instrument and income tax relating to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 <i>Income Taxes</i>.</p>	<p>Staff agree with the proposed amendment. We note that the EFRAG has suggested that the IASB also clarify the treatment of income tax relating to distributions in IAS 12. While we acknowledge the point made by the EFRAG, we do not think the issue is significant enough to require clarification as part of the Annual Improvements project – amendments to IAS 12 should await a more fundamental review of that Standard.</p>
<p>IAS 34 <i>Interim Financial Reporting</i></p>	<p><b>Clarification of interim financial statements and segment reporting:</b> Clarify the requirements in IAS 34 relating to segment information for total assets for each reportable segment in order to enhance consistency with the requirements in IFRS 8 <i>Operating Segments</i>. The proposed amendment clarifies that total assets for a particular segment need to be disclosed only when both:</p> <ol style="list-style-type: none"> <li>a) the amounts are regularly provided to the chief operating decision maker; and</li> <li>b) there has been a material change in the measure of total assets for that particular reportable segment from the last annual financial statements.</li> </ol>	<p>Staff agree with the proposed amendment.</p>