International Financial Reporting Standard

Annual Improvements to IFRS Standards 2014–2016 Cycle

December 2016

BASES FOR CONCLUSIONS – AMENDMENTS

[IFRS 1 & 12 and IAS 28]

[Related to AASB 2017-1 & AASB 2017-2]

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

Paragraph BC98 and the related heading are deleted.

Short-term exemptions from IFRSs

~~Disclosures about financial instruments~~

BC98 [Deleted] ~~Paragraph E4A of IFRS 1 was added as a consequence of *Annual Improvements to IFRSs 2012–2014 Cycle* issued in September 2014. To avoid the potential use of hindsight when this amendment first took effect, the Board decided that first-time adopters should be permitted to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with IFRSs that are included in *Annual Improvements to IFRSs 2012–2014 Cycle*.~~

The following footnote is added to paragraph BC98.

Annual Improvements to IFRS Standards 2014–2016 Cycle, issued in December 2016, deleted some short-term exemptions for first-time adopters (see paragraph BC99), and as a consequence deleted paragraph BC98.

A new heading and paragraph BC99 are added.

Deletion of short-term exemptions (amendments issued in December 2016)

BC99 In *Annual Improvements to IFRS Standards 2014–2016 Cycle*, the Board deleted the short-term exemptions in paragraphs E3–E7 and the related effective date paragraphs. The Board noted that the reliefs provided in those paragraphs were no longer applicable. The reliefs provided had been available to entities only for reporting periods that had passed.

Consequential amendments to other IFRS Standards

IFRS 7 *Financial Instruments: Disclosures*

The following footnote is added to paragraph BC72A.

Annual Improvements to IFRS Standards 2014–2016 Cycle, issued in December 2016, amended IFRS 1 *First-time Adoption of International Financial Reporting Standards* by deleting the short-term exemption for first-time adopters (see paragraph BC99 of IFRS 1), because it was no longer applicable.

IFRS 10 *Consolidated Financial Statements*

The following footnote is added to paragraph BC287.

Annual Improvements to IFRS Standards 2014–2016 Cycle, issued in December 2016, amended IFRS 1 *First-time Adoption of International Financial Reporting Standards* by deleting the short-term exemption for first-time adopters (see paragraph BC99 of IFRS 1), because it was no longer applicable.

IAS 19 *Employee Benefits*

The following footnote is added to paragraph BC270.

Annual Improvements to IFRS Standards 2014–2016 Cycle, issued in December 2016, amended IFRS 1 *First-time Adoption of International Financial Reporting Standards* by deleting the short-term exemption for first-time adopters (see paragraph BC99 of IFRS 1), because it was no longer applicable.

Amendments to the Basis for Conclusions on IFRS 12 *Disclosure of Interests in Other Entities*

After paragraph BC8, a new heading and paragraphs BC8A–BC8I are added.

Clarification of the scope of the Standard (amendments issued in December 2016)

BC8A The Board was asked to clarify the scope of IFRS 12 with respect to interests in entities within the scope of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Paragraph B17 states that an entity is not required to disclose summarised financial information in accordance with paragraphs B10–B16 for interests classified as held for sale. However, the requirements in paragraph 5B of IFRS 5 made it unclear whether all other requirements in IFRS 12 apply to interests in entities classified as held for sale or discontinued operations in accordance with IFRS 5.

BC8B The Board noted that it had not intended to exempt an entity from all of the disclosure requirements in IFRS 12 with respect to interests in entities classified as held for sale or discontinued operations. The objective of IFRS 12 (ie to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities, and the effects of those interests on financial statements) is relevant to interests in other entities, regardless of whether they are within the scope of IFRS 5.

BC8C Accordingly, in *Annual Improvements to IFRS Standards 2014–2016 Cycle*, the Board added paragraph 5A to clarify that, except as described in paragraph B17, the requirements in IFRS 12 apply to interests in entities within the scope of IFRS 5—ie interests that are classified (or included in a disposal group that is classified) as held for sale, held for distribution to owners in their capacity as owners, or discontinued operations. Paragraph 5A refers only to interests that are classified as held for sale or discontinued operations because the clarification was needed only for interests referred to in paragraph 5B of IFRS 5.

BC8D A few respondents to the Board's proposals suggested that the Board consider which requirements in IFRS 12 are particularly relevant for interests in entities within the scope of IFRS 5, and specify that an entity applies only those relevant requirements.

BC8E The Board decided not to change the proposals in this respect. Although acknowledging that some requirements in IFRS 12 might be more relevant to interests within the scope of IFRS 5 than others, the Board noted that this is also true for interests not within the scope of IFRS 5. This is because the relevance of each disclosure requirement for particular interests depends on the specific facts and circumstances relating to such interests. This is implicit in the requirements in paragraph 4, which require an entity to apply judgement in determining the amount of information to disclose about its interests in other entities to satisfy the disclosure objective.

BC8F In response to the Board's proposal to apply the amendments retrospectively, a few respondents asked the Board to consider whether to provide transition relief for interests in entities disposed of before or during the first year of application.

BC8G The Board decided not to provide such transition relief because: (a) the incremental costs of collecting data and preparing information are not expected to be significant—this is because such information is needed for disclosure before the interests are classified as held for sale or discontinued operations; and (b) it would be inconsistent with IFRS 12, which requires disclosure even when an entity no longer has any contractual involvement with another entity.

BC8H The Board decided on an effective date of 1 January 2017 for the amendments. Because the requirements in IFRS 12 generally apply only to annual financial statements, an effective date of 1 January 2017 would typically mean that the earliest an entity would be required to apply the amendments would be within financial statements for the year ended 31 December 2017. Accordingly, an effective date of 1 January 2017 provides an entity with more than a year to prepare to implement the amendments. In addition, the Board noted that the amendments are clarifying in nature.

BC8I The Board decided that an option to apply the amendments early is not necessary. This is because an entity is not prohibited from disclosing additional information.

Amendments to the Basis for Conclusions on IAS 28 *Investments in Associates and Joint Ventures*

After paragraph BC19A, a new heading and paragraphs BC19B–BC19I are added.

Exemption from applying the equity method: measuring an associate or joint venture at fair value (amendments issued in December 2016)

BC19B When an investment in an associate or joint venture is held by, or is held indirectly through, a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect, in accordance with paragraph 18 of IAS 28, to measure that investment at fair value through profit or loss. The Board received a request to clarify whether the entity is able to choose between applying the equity method or measuring the investment at fair value for each investment, or whether instead the entity applies the same accounting to all of its investments in associates and joint ventures.

BC19C The Board noted that, before it was revised in 2011, IAS 28 *Investments in Associates* permitted a venture capital organisation, or a mutual fund, unit trust and similar entities to elect to measure investments in an associate at fair value through profit or loss separately for each associate. However, after the revision, it had become less clear whether such an election was still available to those entities. The Board noted that it did not consider changing these requirements when revising IAS 28 in 2011, and any lack of clarity that arose as a consequence of the amendments in 2011 was unintentional.

BC19D Accordingly, in *Annual Improvements to IFRS Standards 2014–2016 Cycle*, the Board amended paragraph 18 of IAS 28 to clarify that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture.

BC19E In addition, paragraph 36A of IAS 28 permits an entity that is not an investment entity to retain the fair value measurement applied by its associates and joint ventures (that are investment entities) when applying the equity method. The Board also decided to amend that paragraph to clarify that this choice is available, at initial recognition, for each investment entity associate or joint venture.

BC19F Some respondents to the Board's proposals said that it was not clear whether, in its separate financial statements, a venture capital organisation or a mutual fund, unit trust and similar entities:

(a) could choose to measure investments in an associate or joint venture at fair value through profit or loss for each associate or joint venture; or

(b) would be required to measure all such investments at fair value through profit or loss, on the grounds that paragraph 10 of IAS 27 *Separate Financial Statements* requires the same accounting for each category of investments and paragraph 11 of IAS 27 requires investments measured at fair value in accordance with IAS 28 to be measured at fair value in separate financial statements. If this were to be the case, those respondents note that such an outcome would appear to be inconsistent with the objective of the amendments to IAS 28.

BC19G The Board noted that 'category' is not defined in IFRS Standards, but is used in a number of Standards. For example, IFRS 7 *Financial Instruments: Disclosures* uses 'category' to refer to groupings of financial assets and financial liabilities that are measured in different ways—for example, financial assets measured at fair value through profit or loss is one category of financial asset and financial assets measured at amortised cost is another category of financial asset. The Board observed that paragraph 10 of IAS 27 should not be read to mean that, in all circumstances, all investments in associates are one 'category' of investment and all investments in joint ventures are one 'category' of investment. The issue raised by respondents arises only if the requirement in paragraph 10 of IAS 27 were to be interpreted in that way. An entity that elects to measure some associates or joint ventures at fair value through profit or loss in accordance with paragraph 18 of IAS 28 would retain that measurement basis for those associates and joint ventures in its separate financial statements, as required by paragraph 11 of IAS 27. The entity could then choose to measure its remaining associates and joint ventures either at cost, in accordance with IFRS 9 or using the equity method in accordance with paragraph 10 of IAS 27.

BC19H In response to the Board's proposal to apply the amendments retrospectively, some respondents questioned whether the information needed would be available without the use of hindsight. Others suggested providing transition relief for entities that previously interpreted IAS 28 as requiring the same accounting for all investments in associates and joint ventures. They suggested that, when first applying the amendments, such entities should be allowed to elect to measure each existing investment either at fair value through profit or loss or using the equity method.

BC19I The Board decided to retain retrospective application of the amendments because the amendments are expected to affect only a narrow population of entities, and such entities (being venture capital organisations, or mutual funds, unit trusts and similar entities) would typically be expected to have fair value information for their investments for management purposes. In addition, if the costs of applying the amendments retrospectively are considered excessive, an entity can choose not to change any of its previous decisions regarding measurement. This is because retrospective application of a choice of measurement for each associate or joint venture, in effect, means that an entity is not required to reassess its previous decisions. The Board also noted that retrospective application in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* means that an entity will not use hindsight when first applying the amendments—paragraph 53 of IAS 8 states that hindsight should not be used when applying a new accounting policy to a prior period, either in making assumptions about what management's intentions would have been in a prior period or in estimating the amounts recognised, measured and disclosed in a prior period.

