AASB Exposure Draft

ED 213
July 2011

Improvements to IFRSs

Comments to the AASB by 6 September 2011

Australian Government

Australian Accounting Standards Board

Commenting on this AASB Exposure Draft

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 6 September 2011. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 21 October 2011. Comments should be addressed to:

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA
E-mail: standard@aasb.gov.au

Respondents to the IASB are asked to send their comments electronically through the 'Open to Comment' page on the IASB website (www.iasb.org).

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to those submissions being treated as confidential. The latter will only occur if the public interest warrants such treatment.

Obtaining a Copy of this AASB Exposure Draft

This AASB Exposure Draft is available on the AASB website: www.aasb.gov.au. Alternatively, printed copies of this AASB Exposure Draft are available by contacting:

The Customer Service Officer
Australian Accounting Standards Board
Level 7
600 Bourke Street
Melbourne Victoria
AUSTRALIA

Phone: (03) 9617 7637
Fax: (03) 9617 7608
E-mail: publications@aasb.gov.au
Postal address:
PO Box 204
Collins Street West Victoria 8007

Other Enquiries

Phone: (03) 9617 7600
Fax: (03) 9617 7608
E-mail: standard@aasb.gov.au

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AASB REQUEST FOR COMMENTS

In light of the Australian Accounting Standards Board's (AASB's) policy of incorporating International Financial Reporting Standards (IFRSs) into Australian Accounting Standards, the AASB is inviting comments on:

(a) any of the proposals in the attached International Accounting Standards Board (IASB) Exposure Draft, including the specific questions on the proposals as listed in the Invitation to Comment section of the attached IASB Exposure Draft; and

(b) the 'AASB Specific Matters for Comment' listed below.

Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents supplement their opinions with detailed comments, whether supportive or critical, on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

Due Date for Comments to the AASB

Comments should be submitted to the AASB by 6 September 2011. This will enable the AASB to consider those comments in the process of formulating its own comments to the IASB. Constituents are also strongly encouraged to send their response to the IASB.

Reduced Disclosure Requirements

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

(a) Tier 1: Australian Accounting Standards; and

(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

No specific Tier 2 proposals

If the proposed improvements were to proceed, there may be a need to re-present some of the Tier 2 disclosure requirements in the affected Standards. However, the AASB considers there is no need for specific Tier 2 disclosure proposals because none of the proposed improvements would significantly change existing disclosure requirements.

Application of AASB 1 prior to adopting AASB 1053

The proposed improvements include clarification that IFRS 1 *First-time-Adoption of International Financial Reporting Standards* (AASB 1 *First-time-Adoption of Australian Accounting Standards*) is applied by an entity when required, which may be a repeat application in certain circumstances.

Under AASB 1053, an entity does not apply AASB 1 when transitioning to Tier 2 from special purpose financial statements in which all the recognition and measurement requirements of applicable Australian Accounting Standards have been applied. However, prior to adopting AASB 1053, there is only one tier of general purpose financial statements and entities transitioning to general purpose financial statements from special purpose financial statements must always apply AASB 1.

AASB Specific Matters for Comment

The AASB would particularly value comments on the following.

1. **Not-for-profit and public sector entities** – whether there are any regulatory issues or other issues (excluding those noted below) arising in the Australian environment that may affect the implementation of the proposals.

   (a) The IASB ED proposes to update IAS 1 *Presentation of Financial Statements* to reflect the objective of financial reporting as described in the *Conceptual Framework* that was issued in September 2010. The AASB has tentatively decided that Australian not-for-profit (NFP) entities should continue to be subject to the existing AASB *Framework for the Preparation and Presentation of Financial Statements*. Accordingly, it would not adopt the proposed amendment to AASB 101 *Presentation of Financial Statements* for NFP entities. This would be reflected in an Aus paragraph in AASB 101 that retains the existing wording for NFP entities.

   (b) The IASB ED proposes to 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. Under paragraph Aus16.3 of AASB 101, NFP entities need not make an explicit and unreserved statement of compliance with IFRSs. Accordingly, the AASB will consider whether any amendments to Australian Accounting Standards are necessary for NFP entities as a result of the proposed clarification.

2. **General comments**

   (a) Whether, overall, the proposals would result in financial statements that would be useful to users;

   (b) whether the proposals are in the best interests of the Australian economy; and

   (c) unless already provided in response to the above specific matters for comment, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

June 2011

Exposure Draft ED/2011/2

Improvements to IFRSs

Comments to be received by 21 October 2011

IFRS™

IMPROVEMENTS TO IFRSs

(Proposed amendments to International Financial Reporting Standards)

Comments to be received by 21 October 2011

ED/2011/2

Improvements to IFRSs (an exposure draft of proposed amendments to International Financial Reporting Standards) is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form as amendments to IFRSs. Comments on the exposure draft and the Basis for Conclusions should be submitted in writing so as to be received by **21 October 2011**. Respondents are asked to send their comments electronically to the IASB website (www.ifrs.org), using the 'Comment on a proposal' page.

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence.

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Additional copies of this publication may be obtained from:
IFRS Foundation Publications Department,
1st Floor, 30 Cannon Street, London EC4M 6XH, United Kingdom.
Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749
Email: publications@ifrs.org Web: www.ifrs.org

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Introduction and invitation to comment

Introduction

The International Accounting Standards Board has published this exposure draft of proposed amendments to International Financial Reporting Standards (IFRSs) as part of its annual improvements project.

The project provides a streamlined process for dealing efficiently with a collection of amendments to IFRSs. These amendments meet the enhanced criteria for the Board's annual improvements process that were approved by the Trustees in February 2011 as part of a revision to the Due Process Handbook for the Board. The revised criteria were developed to help determine whether a matter relating to the clarification or correction of IFRSs should be addressed using the annual improvements process.

Issues submitted by constituents for consideration within the annual improvements process are considered and discussed by the IFRS Interpretations Committee and by the Board. These discussions take place in the Committee's and the Board's public meetings, including assessment against the criteria for annual improvements. Information about issues that were considered but rejected, because they did not meet the annual improvements criteria, can be found on the annual improvements webpage of the public website of the IFRS Foundation.

Structure of the exposure draft

The exposure draft includes a chapter for each IFRS for which an amendment is proposed. Each chapter includes:

(a) an explanation of the proposed amendment;

(b) when necessary, any specific additional question unique to that proposed amendment;

(c) the paragraphs of the IFRS or implementation guidance that are affected by the proposed amendment;

(d) the proposed effective date of each proposed amendment; and

(e) the basis for the Board's conclusions in proposing the amendment.

Some proposed amendments involve consequential amendments to other IFRSs. Those consequential amendments are included in the chapter that sets out the proposed amendments to the relevant IFRSs.

Invitation to comment

The Board invites comments on the proposed amendments. It would particularly welcome answers to the questions set out below. Comments are most helpful if they:

(a) answer the question as stated;

(b) indicate the specific paragraph or paragraphs to which they relate;

(c) contain a clear rationale; and

(d) describe any alternative the Board should consider.

Respondents need not comment on all of the proposed amendments or all of the questions asked about any amendment. The Board is not requesting comments on matters in the IFRSs not addressed in the exposure draft.

The Board will consider all comments received in writing by 21 October 2011. In considering the comments, the Board will base its conclusions on the merits of the arguments for and against each alternative, not on the number of responses supporting each alternative.

General questions (please answer individually for each proposed amendment)

Question 1

Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

Question 2

Do you agree with the proposed transitional provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

IFRSs addressed

The following table shows the topics addressed by these amendments.

IFRS	Subject of amendment
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	Repeated application of IFRS 1
	Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before the date of transition to IFRSs
IAS 1 *Presentation of Financial Statements*	Clarification of requirements for comparative information
	Consistency with the updated *Conceptual Framework*
IAS 16 *Property, Plant and Equipment*	Classification of servicing equipment
IAS 32 *Financial Instruments: Presentation*	Income tax consequences of distributions to holders of an equity instrument, and of transaction costs of an equity transaction
IAS 34 *Interim Financial Reporting*	Interim financial reporting and segment information for total assets

Approval by the Board of *Improvements to IFRSs* (proposed amendments to International Financial Reporting Standards) published in June 2011

The exposure draft *Improvements to IFRSs* (proposed amendments to International Financial Reporting Standards) was approved for publication by the fifteen members of the International Accounting Standards Board.

Sir David Tweedie	Chairman
Stephen Cooper	
Philippe Danjou	
Jan Engström	
Patrick Finnegan	
Amaro Luiz de Oliveira Gomes	
Prabhakar Kalavacherla	
Elke König	
Patricia McConnell	
Warren J McGregor	
Paul Pacter	
Darrel Scott	
John T Smith	
Tatsumi Yamada	
Wei-Guo Zhang	

Proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Introduction

The Board proposes the following amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Repeated application of IFRS 1

The Board proposes to 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.

Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before the transition date

The Board proposes to 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, the Board proposes to 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 *Borrowing Costs*.

Proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraphs 2A and 39M are added. Paragraph 2 is not proposed for amendment but is included here for ease of reference.

Scope

2 An entity shall apply this IFRS in:

(a) its first IFRS financial statements; and

(b) each interim financial report, if any, that it presents in accordance with IAS 34 *Interim Financial Reporting* for part of the period covered by its first IFRS financial statements.

2A An entity shall apply this IFRS 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 this IFRS in a reporting period before the period reported in the most recent previous annual financial statements.

Effective date

39M *Improvements to IFRSs* issued in [date] added paragraph 2A and amended paragraph D23. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

In Appendix D, paragraph D23 is amended (new text is underlined and deleted text is struck through).

Borrowing costs

D23 A first-time adopter may apply the transitional provisions set out in paragraphs 27 and 28 of IAS 23~~, as revised in 2007~~. In those paragraphs references to the effective date shall be interpreted as 1 January 2009 or the date of transition to IFRSs, whichever is later. <u>An entity electing to apply this exemption can choose to apply the requirements in IAS 23 from an earlier date as permitted by paragraph 28 of IAS 23. From the date on which an entity applying this exemption applies IAS 23, it:</u>

(a) shall not restate the borrowing cost component that was capitalised under previous GAAP and included in the carrying amount of assets at that date; and

(b) shall account for borrowing costs incurred on or after that date, including those incurred on or after that date on qualifying assets already under construction, in accordance with IAS 23.

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

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Repeated application of IFRS 1

BC1 The Board identified the need to clarify whether an entity is required to apply IFRS 1 again in its IFRS financial statements if the entity has applied IFRS 1 in a previous reporting period. For example, an entity may have applied IFRS 1 in a previous reporting period to meet listing requirements in a foreign jurisdiction. The entity then delists and no longer presents financial statements in accordance with IFRSs. In a subsequent reporting period, the reporting requirements in the entity's local jurisdiction may change from national GAAP to IFRSs. Consequently, the entity is again required to present its financial statements in accordance with IFRSs.

BC2 The Board noted that the scope of IFRS 1 focuses on whether an entity's financial statements are its first IFRS financial statements. If an entity's financial statements are its first IFRS financial statements, the entity is required to apply IFRS 1 in accordance with paragraph 2(a).

BC3 However, use of the term 'first' raises the question whether IFRS 1 can be applied more than once when, after previously applying IFRS 1, an entity's most recent previous annual financial statements do not include an explicit and unreserved statement of compliance with IFRSs.

BC4 The Board proposes to clarify that an entity is required to apply IFRS 1 when the entity's most recent previous annual financial statements do not contain an explicit and unreserved statement of compliance with IFRSs, even if the entity has applied IFRS 1 in a reporting period before the period reported in the most recent previous annual financial statements.

Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before transition date

BC5 Concerns were raised by first-time adopters about the transitional provisions for borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before the date of transition to IFRSs. Constituents find it unclear whether borrowing costs capitalised in accordance with previous GAAP should be retained, restated or eliminated in the opening statement of financial position. Constituents also questioned the accounting, after the date of transition, for capitalised borrowing costs relating to such qualifying assets when these qualifying assets are under construction at the date of transition. They sought clarification as to whether the first-time adopter should apply the requirements of IAS 23 *Borrowing Costs* or whether it should continue applying its previous GAAP even though that previous GAAP is not consistent with IAS 23.

BC6 Therefore, the Board proposes to clarify that borrowing costs capitalised in accordance with previous GAAP can be carried over in the opening statement of financial position. When the entity chooses to apply the exemption in paragraph D23, capitalised borrowing costs are not eliminated. The Board noted that eliminating such costs would affect retained earnings and would be inconsistent with the effects of prospective application. In addition, the Board proposes to clarify that borrowing costs incurred after the date of transition that relate to qualifying assets under construction at the date of transition are to be accounted for in accordance with IAS 23. Some had understood that an entity should continue to capitalise borrowing costs using the entity's previous GAAP for borrowing costs relating to qualifying assets under construction at the date of transition.

Proposed amendments to IAS 1 *Presentation of Financial Statements*

Introduction

The Board proposes the following amendments to IAS 1 *Presentation of Financial Statements.*

Clarification of requirements for comparative information

The Board proposes to amend IAS 1 to clarify the requirements for providing comparative information when an entity provides financial statements beyond the minimum comparative information requirements. The Board also proposes to 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:

(a) the opening statement of financial position should be presented as at the beginning of the required comparative period; and

(b) related notes are not required to accompany this opening statement of financial position.

Changes to reflect the *Conceptual Framework for Financial Reporting 2010*

The Board proposes to update the objective of financial statements to be the objective of financial reporting to reflect the *Conceptual Framework* that was issued in September 2010.

Proposed amendments to IAS 1 *Presentation of Financial Statements*

Paragraph 7 is amended and an accompanying footnote is deleted. Paragraph 9 is deleted. Paragraphs 9A and 9B are added. The heading before paragraph 9 and paragraphs 10, 38 and 41 are amended. Paragraph 39 is deleted. Paragraph 40 is renumbered 38C and amended. Paragraphs 38A and 38B, a heading and paragraphs 40A–40C and 139L are added. In amended text new text is underlined and deleted text is struck through.

7 ...

Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Conceptual Framework for Financial Reporting 2010* ~~The *Framework for the Preparation and Presentation of Financial Statements*~~ states in paragraph QC32 ~~25~~[†] that 'Financial reports are prepared for users who ~~are assumed to~~ have a reasonable knowledge of business and economic activities ~~and accounting~~ and who review and analyse ~~a willingness to study~~ the information ~~with reasonable diligence~~ diligently.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

...

[[†] footnote deleted]

Financial statements

Objective of financial reporting ~~Purpose of financial statements~~

9 [Deleted] ~~Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:~~

~~(a) assets;~~

~~(b) liabilities;~~

~~(c) equity;~~

~~(d) income and expenses, including gains and losses;~~

~~(e) contributions by and distributions to owners in their capacity as owners; and~~

~~(f) cash flows.~~

~~This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.~~

9A The objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. General purpose financial reports provide information about the financial position of a reporting entity, which is information about the entity's economic resources and claims against the reporting entity. General purpose financial reports also provide information about the effects of transactions and other events that change a reporting entity's economic resources and claims. Both types of information provide useful input for decisions about providing resources to an entity.

9B To meet the objective of general purpose financial reporting, financial statements provide information about an entity's:

(a) assets;

(b) liabilities;

(c) equity;

(d) income and expenses, including gains and losses;

(e) contributions by, and distributions to, owners in their capacity as owners; and

(f) cash flows.

This information, along with other information in the notes, assists users in assessing the prospects for future net cash inflows to an entity and, in particular, their timing and certainty.

Complete set of financial statements

10 A complete set of financial statements comprises:

(a) a statement of financial position as at the end of the period;

(b) a statement of comprehensive income for the period;

(c) a statement of changes in equity for the period;

(d) a statement of cash flows for the period;

(e) notes, comprising a summary of significant accounting policies and other explanatory information; ~~and~~

(ea) comparative information in respect of the previous period (the required comparative period) as specified in paragraphs 38 and 38A; and

(f) a statement of financial position as at the beginning of the ~~earliest~~ required comparative period if applicable (see paragraph 40A). ~~when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.~~

An entity may use titles for the statements other than those used in this Standard.

Comparative information

38 Except when IFRSs permit or require otherwise, an entity shall ~~disclose~~ present comparative information in respect of the required comparative period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information ~~when~~ if it is relevant to ~~an~~ understanding ~~of~~ the current period's financial statements.

38A An entity shall present, as a minimum, two statements of financial position, two statements of comprehensive income, two statements of cash flows and two statements of changes in equity, and related notes.

38B An entity may present additional comparative information for periods before the required comparative period as long as that information is prepared in accordance with IFRSs. An entity may present additional comparative information in one or more statements without that additional comparative information comprising a complete set of financial statements. When this is the case, the entity shall present comparative information in the related notes for those additional statements. For example, an entity may present amounts for three periods (the current period, the required comparative period and one additional comparative period) in its statement of comprehensive income. The entity is not required to present amounts for that third (additional comparative) period in its statements of financial position, cash flows and changes in equity. However, the entity presents comparative information in the related notes to the financial statements related to that additional statement of comprehensive income.

38C In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute whose outcome was uncertain at the end of the ~~immediately preceding reporting period~~ required comparative period and that is yet to be resolved. Users may benefit from disclosure of information that the uncertainty existed at the end of the ~~immediately preceding reporting period,~~ required comparative period and from disclosure of information about the steps that have been taken during the period to resolve the uncertainty.

39 [Deleted] ~~An entity disclosing comparative information shall present, as a minimum, two statements of financial position, two of each of the other statements, and related notes. When an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements, it shall present, as a minimum, three statements of financial position, two of each of the other statements, and related notes. An entity presents statements of financial position as at:~~

~~(a) the end of the current period;~~

~~(b) the end of the previous period (which is the same as the beginning of the current period), and~~

~~(c) the beginning of the earliest comparative period.~~

40 [Deleted] ~~In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute whose outcome was uncertain at the end of the immediately preceding reporting period and that is yet to be resolved. Users benefit from information that the uncertainty existed at the end of the immediately preceding reporting period, and about the steps that have been taken during the period to resolve the uncertainty.~~

Change in accounting policy, retrospective restatement or reclassification

40A An entity shall present an additional statement of financial position as at the beginning of the required comparative period if it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements.

40B In those circumstances an entity shall present, as a minimum, three statements of financial position and two of each of the other statements and related notes. The statements of financial position are as at:

(a) the end of the current period;

(b) the end of the required comparative period; and

(c) the beginning of the required comparative period.

40C However, an entity need not present related notes to the opening statement of financial position required in paragraph 40B(c), other than disclosure of information required by paragraphs 41–44 and IAS 8. The date of that opening statement of financial position shall be as at the beginning of the required comparative period regardless of whether an entity's financial statements present comparative information for earlier periods (as described in paragraph 38B).

41 ~~When the~~ <u>If an</u> entity changes the presentation or classification of items in its financial statements, ~~the entity~~ <u>it</u> shall reclassify comparative amounts unless reclassification is impracticable. When ~~the~~ <u>an</u> entity reclassifies comparative amounts, ~~the entity~~ <u>it</u> shall disclose <u>(including as at the beginning of the required comparative period)</u>:

(a) the nature of the reclassification;

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification.

Transition and effective date

139L *Improvements to IFRSs* issued in [date] amended paragraphs 10, 38 and 41, deleted paragraph 39, renumbered paragraph 40 as paragraph 38C and amended it and added paragraphs 38A, 38B and 40A–40C. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

Basis for Conclusions on proposed amendments to IAS 1 *Presentation of Financial Statements*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Clarification of requirements for comparative information

BC1 The Board was asked to clarify the requirements for providing comparative information. Specifically, it was asked to consider whether an entity should be required to present a complete set of financial statements when it provides financial statements beyond the minimum comparative information requirements (ie additional comparative information). In response to this request, the Board proposes that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements because the information would be presented voluntarily. The Board also proposes to amend paragraphs 38–41 of IAS 1 to clarify that, when additional comparative information is provided, this information should be presented in accordance with IFRSs. This means, for example, that when an entity applies a change in accounting policy on a retrospective basis, it should adjust that additional comparative information in accordance with the new accounting policy as required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

BC2 In addition, the Board proposes to amend the current requirements in IAS 1 that relate to the presentation of a statement of financial position for the beginning of the earliest comparative period presented in cases of changes in accounting policies, retrospective restatements or reclassifications. The Board proposes to clarify that the appropriate date for the opening statement of financial position is the beginning of the required comparative period. This proposal is a consequence of the proposed clarification described in paragraph BC1 above when an entity chooses to present additional comparative information. The Board also proposes to change the current requirements so as no longer to require related notes to this opening statement of financial position to be presented. The Board believes that this change ensures useful information is provided to users, without the need for full reproduction of the notes relating to the opening statement of financial position. The Board noted that the entity would still be required to provide information in accordance with IAS 8.

BC3 The Board decided to propose that the amendments should be included in annual improvements as a more expedient way to address this issue than through the Financial Statement Presentation project, in the light of the concerns raised by constituents.

Changes to reflect the *Conceptual Framework*

BC4 In September 2010 the Board issued the first two chapters (1 and 3) of its new *Conceptual Framework for Financial Reporting*. These chapters addressed the objective of financial reporting and the qualitative characteristics of useful financial information. The Board adopted a new objective of financial reporting, superseding the objective of financial statements. To avoid confusion and translation difficulties for the same concept, the Board proposes to replace the objective of financial statements in IAS 1 with the objective of financial reporting in the *Conceptual Framework*. In addition, the Board also proposes to update the consideration of the characteristics of users to be consistent with the guidance in the *Conceptual Framework*.

Proposed amendment to IAS 16 *Property, Plant and Equipment*

Introduction

Classification of servicing equipment

In IAS 16 *Property, Plant and Equipment* the Board proposes to 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.

Proposed amendment to IAS 16 *Property, Plant and Equipment*

Paragraph 8 is amended (new text is underlined and deleted text is struck through) and paragraph 81G is added.

Recognition

8 Spare parts and servicing equipment are often carried as inventory and recognised in profit or loss as consumed. However, major spare parts, ~~and~~ stand-by equipment <u>and servicing equipment</u> qualify as property, plant and equipment when an entity expects to use them during more than one period. ~~Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.~~

Effective date

81G *Improvements to IFRSs* issued in [date] amended paragraph 8. An entity shall apply that amendment for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

Basis for Conclusions on proposed amendment to IAS 16 *Property, Plant and Equipment*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Classification of servicing equipment

BC1 In response to a perceived inconsistency in the classification requirements for servicing equipment, the Board proposes to 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. In doing so, the Board proposes to emphasise the definition of property, plant and equipment. As a consequence, the Board also proposes to delete from paragraph 8 the 'used only in connection with' condition on the grounds that it is too restrictive when compared with the definition of property, plant and equipment.

Proposed amendments to IAS 32 *Financial Instruments: Presentation*

Introduction

Income tax consequences of distributions to holders of an equity instrument, and of transaction costs of an equity transaction

The Board proposes to amend IAS 32 *Financial Instruments: Presentation* 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 *Income Taxes*.

Proposed amendments to IAS 32 *Financial Instruments: Presentation*

Paragraphs 35, 37 and 39 are amended (new text is underlined and deleted text is struck through). Paragraphs 35A and 97L are added.

Presentation

Interest, dividends, losses and gains (see also paragraph AG37)

35 **Interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability shall be recognised as income or expense in profit or loss. Distributions to holders of an equity instrument shall be <u>recognised</u> ~~debited~~ by the entity directly ~~to~~ <u>in</u> equity~~, net of any related income tax benefit~~. Transaction costs of an equity transaction shall be accounted for as a deduction from equity~~, net of any related income tax benefit~~.**

35A Income tax relating to distributions to holders of an equity instrument and income tax relating to transaction costs of an equity transaction shall be accounted for in accordance with IAS 12 *Income Taxes*.

37 An entity typically incurs various costs in issuing or acquiring its own equity instruments. These costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. The transaction costs of an equity transaction are accounted for as a deduction from equity ~~(net of any related income tax benefit)~~ to the extent that they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.

39 The amount of transaction costs accounted for as a deduction from equity in the period is disclosed separately ~~under~~ <u>in accordance with</u> IAS 1. ~~The related amount of income taxes recognised directly in equity is included in the aggregate amount of current and deferred income tax credited or charged to equity that is disclosed under IAS 12 *Income Taxes*.~~

Effective date and transition

97L *Improvements to IFRSs* issued in [date] amended paragraphs 35, 37 and 39 and added paragraph 35A. An entity shall apply those amendments retrospectively for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Basis for Conclusions on proposed amendments to IAS 32 *Financial Instruments: Presentation*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Income tax consequences of distributions to holders of an equity instrument and of transaction costs of an equity transaction

BC1 The Board was asked to address a perceived inconsistency between IAS 12 *Income Taxes* and IAS 32 *Financial Instruments: Presentation* regarding the recognition of income tax relating both to distributions to holders of an equity instrument and to transaction costs of an equity transaction. Paragraph 52B of IAS 12 requires the recognition of the income tax consequences of dividends in profit or loss except when the circumstances described in paragraph 58(a) and (b) of IAS 12 arise. However, paragraph 35 of IAS 32 requires the recognition of income tax relating to distributions to holders of an equity instrument in equity.

BC2 The Board noted that the intention of IAS 32 was to follow the requirements in IAS 12 for accounting for income tax relating to distributions to holders of an equity instrument and income tax relating to transaction costs of an equity transaction. Consequently, the Board proposes to add paragraph 35A to IAS 32 to clarify this intention.

BC3 The amendment clarifies that the income tax consequences of dividends are recognised in profit or loss in accordance with paragraph 52B of IAS 12 except to the extent that the income tax consequences of dividends arise from the circumstances described in paragraph 58(a) and (b) of IAS 12. It also clarifies that the tax effect of distributions to holders of an equity instrument other than dividends and the tax effect of transaction costs of an equity transaction are recognised in accordance with the principle in paragraph 57 of IAS 12.

Appendix to proposed amendments to IAS 32

Amendment to IFRIC 2
Members' Shares in Co-operative Entities and Similar Instruments

In the rubric 'paragraphs 1–14A' is amended to 'paragraphs 1–17'. Paragraph 11 is amended (deleted text is struck through). Paragraph 17 is added.

Consensus

11 As required by paragraph 35 of IAS 32, distributions to holders of equity instruments are recognised directly in equity~~, net of any income tax benefits~~. Interest, dividends and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterised as dividends, interest or otherwise.

Effective date

17 *Improvements to IFRSs* issued in [date] amended paragraph 11. An entity shall apply that amendment retrospectively for annual periods beginning on or after 1 January 2013. If an entity applies the amendment to IAS 32 as part of the *Improvements to IFRSs* issued in [date] for an earlier period, the amendment in paragraph 11 shall be applied for that earlier period.

Proposed amendment to IAS 34 *Interim Financial Reporting*

Introduction

Interim financial reporting and segment information for total assets

The Board proposes to clarify the requirements in IAS 34 *Interim Financial Reporting* relating to segment information for total assets for each reportable segment in order to enhance consistency with the requirements in IFRS 8 *Operating Segments*. The proposed amendment clarifies that total assets for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements.

Proposed amendment to IAS 34 *Interim Financial Reporting*

In the rubric 'paragraphs 1–49' is amended to 'paragraphs 1–52'. Paragraph 16A is amended (new text is underlined and deleted text is struck through) and paragraph 52 is added.

Content of an interim financial report

Other disclosures

16A **In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information in the notes to its interim financial statements, if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis.**

(a) **...**

(g) **the following segment information (disclosure of segment information is required in an entity's interim financial report only if IFRS 8 *Operating Segments* requires that entity to disclose segment information in its annual financial statements):**

(i) **...**

(iv) **<u>a measure of</u> total assets <u>for a particular reportable segment if such amounts are regularly provided to the chief operating decision maker and if</u> ~~for which~~ there has been a material change from the amount disclosed in the last annual financial statements <u>for that reportable segment</u>.**

(v) **...**

(h) **...**

Effective date

52 *Improvements to IFRSs* issued in [date] amended paragraph 16A. An entity shall apply that amendment prospectively for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

Basis for Conclusions on proposed amendment to IAS 34 *Interim Financial Reporting*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Selected explanatory notes

BC1 The Board proposes to clarify the requirements in IAS 34 *Interim Financial Reporting* on segment information for total assets for each reportable segment in order to enhance consistency with the requirements in paragraph 23 of IFRS 8 *Operating Segments*. The proposed amendment clarifies that total assets for a particular reportable segment are required to be disclosed only when both:

(a) the amounts are regularly provided to the chief operating decision maker; and

(b) there has been a material change in the measure of total assets for that particular reportable segment from the amount disclosed in the last annual financial statements.

