International Financial Reporting Standard

Annual Improvements to IFRSs 2009–2011 Cycle

May 2012

BASES FOR CONCLUSIONS – AMENDMENTS

[IFRS 1 and IAS 1, 16, 32 & 34]

[Related to AASB 2012-5]

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

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

A heading, paragraphs BC6A–BC6E and BC63EA–BC63EB are added.

Scope

Repeated application of IFRS 1

BC6A In *Annual Improvements 2009–2011 Cycle* (issued in May 2012) the Board addressed a request to clarify whether an entity may apply IFRS 1:

(a) if the entity meets the criteria for applying IFRS 1 and has applied IFRS 1 in a previous reporting period; or

(b) if the entity meets the criteria for applying IFRS 1 and has applied IFRSs in a previous reporting period when IFRS 1 did not exist.

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.

BC6B The Board noted that the scope of IFRS 1 focuses on whether an entity's financial statements are its first IFRS financial statements (a term defined in Appendix A). If an entity's financial statements meet the definition of 'first IFRS financial statements', the entity is required to apply IFRS 1 in accordance with paragraph 2(a). However, use of the term 'first' raises the question whether IFRS 1 can be applied more than once.

BC6C In the June 2011 exposure draft the Board proposed 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. However, in the light of respondents' comments on the June 2011 exposure draft, the Board decided that an entity that meets the criteria for applying IFRS 1 and that has applied IFRSs in a previous reporting period (regardless of whether it used IFRS 1 or SIC-8 *First-Time Application of IASs*, if either, when previously adopting) may choose to apply IFRS 1 when it re-adopts IFRSs. The Board decided that the entity should be allowed, rather than required, to apply IFRS 1 because, as explained in paragraph IN5 of IFRS 1, IFRS 1 grants limited exemptions from some requirements of IFRSs on the assumption that the cost of complying with some IFRSs would be likely to exceed the benefits to users of financial statements. However, the costs of applying IFRSs in full might not exceed the benefits of doing so for an entity that had previously applied IFRSs. Consequently, the Board concluded that an entity returning to IFRSs might determine that the benefits of applying IFRSs as if it had continued to do so without interruption would exceed the costs of preparing such information, and that an entity should not be prohibited from following that approach. In applying such an approach, an entity should apply IFRSs retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Estimates and Errors* as if the entity had never stopped applying IFRSs. The Board noted that hindsight is not applied by an entity in preparing IFRS financial statements, whether that entity is applying IFRS 1, or whether that entity applies IFRSs retrospectively as if the entity had never stopped applying them in accordance with IAS 8. The Board noted that paragraphs 14–17 of IFRS 1 and paragraph 53 of IAS 8 provide guidance in this regard.

BC6D The Board also noted that, in accordance with paragraph 2 of IFRS 1, an entity that has never applied IFRSs in the past would continue to be required to apply IFRS 1 in its first IFRS financial statements.

BC6E The Board also decided that the entity shall disclose the reason why it stopped applying IFRSs and the reason why it is resuming reporting in accordance with IFRSs. The Board thinks that this disclosure requirement provides users with useful information and would discourage the intentional omission of the statement of compliance with IFRSs solely to allow an entity to take advantage of the exemptions in IFRS 1. The Board also decided that an entity that does not elect to apply IFRS 1 shall explain the reasons why it has elected to apply IFRSs as if it had never stopped applying them. The Board believes that this disclosure ensures that useful information will be provided to users.

Borrowing costs

BC63E ...

BC63EA In *Annual Improvements 2009–2011 Cycle* (issued in May 2012) the Board addressed some concerns that were raised by first-time adopters about the transitional provisions for borrowing costs relating to qualifying assets for which the commencement date for capitalisation was before the date of transition to IFRSs. Interested parties found it unclear whether borrowing costs capitalised in accordance with previous GAAP should be retained, restated or eliminated in the opening statement of financial position. Interested parties also questioned the accounting, after the date of transition, for borrowing costs that relate to such qualifying assets when these qualifying assets are under construction at the date of transition. They wanted 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 if that previous GAAP is not consistent with IAS 23.

BC63EB The Board clarified that when the entity chooses to apply the exemption in paragraph D23 of IFRS 1, the borrowing costs that were capitalised in accordance with previous GAAP should be carried forward in the opening statement of financial position. This is because gathering the information for capitalisation of borrowing costs under IAS 23 and identifying and eliminating the amounts (if any) capitalised in past years under previous GAAP may be costly. In addition, the Board clarified that an entity should account for borrowing costs that are incurred after the date of transition and that relate to qualifying assets under construction at the date of transition in accordance with IAS 23, regardless of whether the entity capitalised or recognised in profit and loss borrowing costs under previous GAAP. The Board determined that this requirement would ensure useful information to users of financial statements. A first-time adopter could also choose to apply the requirements of IAS 23 from a date earlier than the date of transition, in which case it should account for borrowing costs in accordance with IAS 23 on or after the earlier date selected.

Amendment to the Basis for Conclusions on IAS 1 *Presentation of Financial Statements*

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

Paragraphs BC32A–BC32G and headings are added.

Comparative information

Clarification of requirements for comparative information

BC32A In *Annual Improvements 2009–2011 Cycle* (issued in May 2012) the Board addressed a request to clarify the requirements for providing comparative information for:

(a) the comparative requirements for the opening statement of financial position when an entity changes accounting policies, or makes retrospective restatements or reclassifications, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and

(b) the requirements for providing comparative information when an entity provides financial statements beyond the minimum comparative information requirements.

Opening statement of financial position

BC32B In *Annual Improvements 2009–2011 Cycle* (issued in May 2012) the Board addressed a request to clarify the appropriate date for the opening statement of financial position. The Board decided 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 to clarify that the appropriate date for the opening statement of financial position is the beginning of the preceding period.

BC32C The Board also decided to change the previous requirements so that related notes to this opening statement of financial position are no longer required to be presented. The Board's decision to give this relief was based on the fact that circumstances in which an entity changes an accounting policy, or makes a retrospective restatement or a reclassification in accordance with IAS 8, are considered narrow, specific and limited. However, the circumstances in which an entity chooses to provide additional financial statements (ie on a voluntary basis) can be viewed as more generic and may arise for different reasons. Accordingly, this relief is not available when additional financial statements are provided on a voluntary basis.

BC32D The Board added the guidance in paragraph 40A(a) to clarify when an opening statement of financial position provides useful information and, should therefore be required. Paragraph 40A(b) is a reminder that the concept of materiality should be considered in applying the guidance in paragraph 40A(a). The Board noted that the entity would still be required to disclose the information required by IAS 8 for changes in accounting policies and retrospective restatements.

Comparative information beyond minimum requirements

BC32E In *Annual Improvements 2009–2011 Cycle* (issued in May 2012) the Board addressed a request to clarify the requirements for providing comparative information. Specifically, the Board 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 decided to clarify 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. The Board also noted that additional comparative information might include:

(a) information that is presented voluntarily, beyond the information that is included within a complete set of financial statements; or

(b) comparative information that is required by law or other regulations but that is not required by IFRSs.

BC32F The Board also decided to amend paragraphs 38–41 of IAS 1 to clarify that, when additional comparative information (that is not required by IFRSs) is provided by an entity, this information should be presented in accordance with IFRSs and the entity should present comparative information in the related notes for that additional information. The Board determined that requiring full notes for additional information in accordance with paragraph 38C is necessary to ensure that the additional information that the entity provides is balanced and results in financial statements that achieve a fair presentation.

BC32G In the light of the concerns raised by interested parties, the Board decided that the amendments should be introduced through the Annual Improvements process instead of through the Financial Statement Presentation project, so that the changes could be made more quickly.

Consequential amendments to other standards resulting from the amendment to IAS 1 (continued)

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

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

Paragraphs BC89B and BC89C are added.

Presentation and disclosure

Comparative information

BC89B In the light of respondents' comments on the June 2011 exposure draft *Improvements to IFRSs*, the Board amended paragraph 21 as part of *Annual Improvements 2009–2011 Cycle* (issued in May 2012) because it considered that the requirements for comparative information for a first-time adopter should be different from the requirements for comparative information for an existing preparer. The Board noted that a first-time adopter should not be exempted from presenting three statements of financial position and related notes because it might not have presented this information previously on a basis consistent with IFRSs.

BC89C In addition, the Board considered that a first-time adopter may provide additional comparative information that is presented in accordance with previous GAAP to help the user understand the effects of the transition to IFRSs in accordance with paragraph 22 of IFRS 1. For example, a law or a regulator requires an entity to present the first comparative financial statements in accordance with both IFRSs and previous GAAP and the second comparative in accordance with previous GAAP only. The presentation of this information is an exception from the requirement in paragraph 38C of IAS 1 (to allow an entity to present comparative information in addition to the minimum comparative information required by IFRSs).

Consequential amendments to other standards resulting from the amendment to IAS 1 (continued)

Amendment to the Basis for Conclusions on IAS 34 *Interim Financial Reporting*

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

A heading and paragraph BC5 is added.

Content of an interim financial report

BC5 As part of *Annual Improvements 2009–2011 Cycle* (issued in May 2012) the Board amended paragraph 5 to achieve consistency with paragraphs 10(ea) and 10(f) of IAS 1 *Presentation of Financial Statements*.

Amendment to the Basis for Conclusions on IAS 16 *Property, Plant and Equipment*

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

A heading and paragraph BC12A are added.

Recognition

Classification of servicing equipment

BC12A In *Annual Improvements 2009–2011 Cycle* (issued in May 2012) the Board responded to a request to address a perceived inconsistency in the classification requirements for servicing equipment. Paragraph 8 of IAS 16 was unclear on the classification of servicing equipment as inventory or property, plant and equipment and led some to think that servicing equipment used during more than one period would be classified as part of inventory. The Board decided to clarify that items such as spare parts, stand-by equipment and servicing equipment shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment. If they do not meet this definition they are classified as inventory. In the light of respondents' comments to the June 2011 exposure draft, the Board did not make explicit reference to the classification of particular types of equipment, because the definition of property, plant and equipment already provides sufficient guidance. The Board also deleted from paragraph 8 the requirement to account for spare parts and servicing equipment as property, plant and equipment only if they were used in connection with an item of property, plant and equipment because this requirement was too restrictive when compared with the definition of property, plant and equipment.

Amendment to the Basis for Conclusions on IAS 32 *Financial Instruments: Presentation*

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

A heading and paragraphs BC33A–BC33C are added.

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

BC33A In *Annual Improvements 2009–2011 Cycle* (issued in May 2012) the Board addressed perceived inconsistencies between IAS 12 *Income Taxes* and IAS 32 *Financial Instruments: Presentation* with regards to recognising the consequences of income tax relating 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 required the recognition of income tax relating to distributions to holders of an equity instrument in equity (prior to the amendment).

BC33B 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 to transaction costs of an equity transaction. Consequently, the Board decided to add paragraph 35A to IAS 32 to clarify this intention.

BC33C The Board noted that this amendment is not intended to address the distinction between income tax consequences of dividends in accordance with paragraph 52B, and withholding tax for dividends in accordance with paragraph 65A, of IAS 12. In this respect, the Board observed that the income tax consequences of distributions to holders of an equity instrument are recognised in profit or loss in accordance with paragraph 52B of IAS 12. Consequently, to the extent that the distribution relates to income arising from a transaction that was originally recognised in profit or loss, the income tax on the distribution should be recognised in profit or loss. However, if the distribution relates to income or to a transaction that was originally recognised in other comprehensive income or equity, the entity should apply the exception in paragraph 58(a) of IAS 12, and recognise the income tax consequences of the distribution outside of profit or loss. The Board also observed that, in accordance with paragraph 65A, when an entity pays dividends to its shareholders the portion of the dividends paid or payable to taxation authorities as withholding tax is charged to equity as part of the dividends.

Amendment to the Basis for Conclusions on IAS 34 *Interim Financial Reporting*

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

A heading and paragraph BC6 is added.

Selected explanatory notes

BC6 In *Annual Improvements 2009–2011 Cycle* (issued in May 2012) the Board decided to clarify the requirements on segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in paragraph 23 of IFRS 8 *Operating Segments*. The amendment clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if:

(a) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; and

(b) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment.