AASB Exposure Draft **ED 276**

January 2017

Annual Improvements to Australian Accounting Standards 2015–2017 Cycle

Comments to the AASB by 8 March 2017

Australian Government

Australian Accounting Standards Board

How to Comment on this AASB Exposure Draft

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 8 March 2017. 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 12 April 2017.

Formal Submissions

Submissions should be lodged online via the "Work in Progress – Open for Comment" page of the AASB website (www.aasb.gov.au/comment) as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

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

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 Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

ISSN 1030-5882

AASB REQUEST FOR COMMENTS

The Australian Accounting Standards Board's (AASB's) policy is to incorporate International Financial Reporting Standards into Australian Accounting Standards. Accordingly, the AASB is inviting comments on:

(a) any of the proposals in the attached International Accounting Standards Board 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.

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

   (a) not-for-profit entities. The AASB will consider the effective date of the amendments for not-for-profit entities on issue of a pronouncement based on this Exposure Draft, including the effective date of the proposed amendments to AASB 128 *Investments in Associates and Joint Ventures* (and AASB 1 *First-time Adoption of Australian Accounting Standards*); and

   (b) public sector entities, including GAAP/GFS implications;

2. whether, overall, the proposals would result in financial statements that would be useful to users;

3. whether the proposals are in the best interests of the Australian economy; and

4. unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

January 2017

Exposure Draft ED/2017/1

Annual Improvements to IFRS® Standards 2015–2017 Cycle

Comments to be received by 12 April 2017

IASB®

IFRS®

Exposure Draft

Annual Improvements to IFRS® Standards 2015–2017 Cycle

Exposure Draft ED/2017/1 *Annual Improvements to IFRS 2015–2017 Cycle* is issued by the International Accounting Standards Board (the Board).

ISBN: 978-1-911040-41-5.

CONTENTS

Introduction

The International Accounting Standards Board (the Board) has published this Exposure Draft of proposed amendments to IFRS® Standards as part of its Annual Improvements process.

The Annual Improvements process provides a mechanism for dealing efficiently with a collection of minor amendments to IFRS Standards. These proposed amendments meet the criteria for the Board's Annual Improvements process.

The IFRS Interpretations Committee (the Interpretations Committee) and the Board discussed the proposed amendments set out in this Exposure Draft in public meetings.

Content

The Exposure Draft includes a section for each IFRS Standard for which amendments are proposed. Each section includes:

(a) an explanation of the proposed amendments;

(b) the paragraphs that are affected by the proposed amendments;

(c) the proposed effective date, if any, of the proposed amendments; and

(d) the basis for the Board's conclusions in proposing the amendments.

Some proposed amendments result in consequential amendments to IFRS Standards. Those consequential amendments are set out in the same section as the proposed amendments.

Invitation to comment

The Board invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) comment on the questions as stated;

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

(c) contain a clear rationale; and

(d) include any alternative that the Board should consider.

Respondents need not comment on all of the proposed amendments or on all of the questions asked. The Board is not requesting comments on matters that are not addressed in this Exposure Draft.

Comments should be submitted in writing to be received no later than **12 April 2017**.

Questions for respondents

Question 1—Proposed amendments (please answer individually for each proposed amendment)
Do you agree with the Board's proposal to amend the Standards in the manner described in the Exposure Draft? If not, why, and what alternative do you propose?

Question 2—Effective date of the proposed amendments to IAS 28 *Investments in Associates and Joint Ventures*
The Board is proposing an effective date of 1 January 2018 for the proposed amendments to IAS 28. The reasons for that proposal are explained in paragraphs BC7–BC9 of the Basis for Conclusions on the proposed amendments to IAS 28. Do you agree with the effective date for those proposed amendments? If not, why, and what alternative do you propose?

How to comment

Comments should be submitted using one of the following methods.

Electronically (our preferred method)	Visit the 'Comment on a proposal' page, which can be found at: go.ifrs.org/comment
Email	Email comments can be sent to: commentletters@ifrs.org
Postal	IFRS Foundation 30 Cannon Street London EC4M 6XH United Kingdom

All comments will be on the public record and posted on our website unless confidentiality is requested. Such requests will not normally be granted unless supported by good reason—for example, commercial confidence. Please see our website for details on this and on how we use your personal data.

The Standards addressed

The following table shows the topics addressed by these proposed amendments.

Standard	Subject of proposed amendment
IAS 12 *Income Taxes*	Income tax consequences of payments on financial instruments classified as equity.
IAS 23 *Borrowing Costs*	Borrowing costs eligible for capitalisation.
IAS 28 *Investments in Associates and Joint Ventures*	Long-term interests in an associate or joint venture.

Approval by the Board of the Exposure Draft *Annual Improvements to IFRS Standards 2015–2017 Cycle* published in January 2017

The Exposure Draft *Annual Improvements to IFRS Standards 2015–2017 Cycle* was approved for publication by ten of the eleven members of the International Accounting Standards Board as at December 2016. Mr Ochi voted against the publication of the proposed amendments to IAS 28 *Investments in Associates and Joint Ventures*. His alternative view is set out after the Basis for Conclusions on the proposed amendments to IAS 28.

Hans Hoogervorst	Chairman
Suzanne Lloyd	Vice-Chair
Stephen Cooper	
Martin Edelmann	
Amaro Gomes	
Gary Kabureck	
Takatsugu Ochi	
Darrel Scott	
Chungwoo Suh	
Mary Tokar	
Wei-Guo Zhang	

Proposed amendments to IAS 12 *Income Taxes*

Introduction

The Board proposes the following amendments to IAS 12 *Income Taxes*.

Income tax consequences of payments on financial instruments classified as equity

The Board proposes to clarify that the requirements in paragraph 52B of IAS 12 apply not just in the circumstances described in paragraph 52A of IAS 12, but to all income tax consequences of dividends.

[Draft] Amendments to IAS 12 *Income Taxes*

Paragraphs 58A and 98I are added and paragraph 52B is deleted. Deleted text is struck through and new text is underlined. Paragraph 58 has not been amended but has been included for ease of reference.

Measurement

...

52B [Deleted] ~~In the circumstances described in paragraph 52A, the income tax consequences of dividends are recognised when a liability to pay the dividend is recognised. The income tax consequences of dividends are more directly linked to past transactions or events than to distributions to owners. Therefore, the income tax consequences of dividends are recognised in profit or loss for the period as required by paragraph 58 except to the extent that the income tax consequences of dividends arise from the circumstances described in paragraph 58(a) and (b).~~

Example illustrating paragraph~~s~~ 52A ~~and 52B~~
...

...

Recognition of current and deferred tax

Items recognised in profit or loss

58 Current and deferred tax shall be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

(a) a transaction or event which is recognised, in the same or a different period, outside profit or loss, either in other comprehensive income or directly in equity (see paragraphs 61A–65); or

(b) a business combination (other than the acquisition by an investment entity, as defined in IFRS 10 *Consolidated Financial Statements*, of a subsidiary that is required to be measured at fair value through profit or loss) (see paragraphs 66–68).

58A The income tax consequences of dividends are linked more directly to past transactions or events than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss for the period, except when the transactions or events are those described in paragraph 58(a) and (b). An entity recognises the income tax consequences of dividends when it recognises a liability to pay the dividend.

...

Effective date

...

98I [Draft] *Annual Improvements to IFRS Standards 2015–2017 Cycle*, issued in [month], deleted paragraph 52B and added paragraph 58A. An entity shall apply those amendments retrospectively in accordance with IAS 8 for annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

[Draft] Consequential amendments to IFRS Standards

IAS 32 *Financial Instruments: Presentation*

The following footnote is added to paragraphs BC33A and BC33C.

[Draft] *Annual Improvements to IFRS Standards 2015–2017 Cycle*, issued in [month], deleted paragraph 52B of IAS 12. The requirements previously specified in paragraph 52B were moved to paragraph 58A of IAS 12.

Basis for Conclusions on the proposed amendments to IAS 12 *Income Taxes*

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

BC1 The Board received a request to clarify where to recognise the income tax consequences of payments on financial instruments classified as equity—in equity or in profit or loss. The request asked whether the requirements in paragraph 52B of IAS 12 apply only in the circumstances described in paragraph 52A of IAS 12 (ie when there are different tax rates for distributed and undistributed profits), or whether they also apply beyond those circumstances (for example, to all payments on financial instruments classified as equity if those payments are distributions of profit).

BC2 In considering the request, the Board observed the following:

(a) IFRS 9 *Financial Instruments* defines dividends as distributions of profits to holders of equity instruments in proportion to their holdings of a particular class of capital.

(b) the requirements in paragraph 52B (now proposed as paragraph 58A) first require an entity to link the income tax consequences of dividends to the transactions or events that generated distributable profits. An entity then applies the requirements in paragraph 58 in determining where to recognise those income tax consequences. Applying paragraph 52B (now proposed as paragraph 58A), an entity recognises the income tax consequences of dividends where it has recognised the transactions or events that generated distributable profits.

(c) the reason for the income tax consequences of dividends should not affect where those income tax consequences are recognised. It does not matter whether such consequences arise, for example, because of different tax rates for distributed and undistributed profits or, instead, because of the deductibility of dividends for tax purposes. This is because, in both cases, the income tax consequences arise from the distribution of profits.

(d) linking the recognition of the income tax consequences of dividends to how the tax arises (for example, because of different tax rates rather than because of different tax deductibility rules) would lead to arbitrary results and a lack of comparability across entities in different tax jurisdictions. Tax jurisdictions choose different methods of providing tax relief. What matters is the resulting tax effect, not the mechanism.

BC3 Accordingly, the Board concluded that an entity should recognise all income tax consequences of dividends applying the requirements in paragraph 52B. However, the Board also observed that, as written, paragraph 52B could be read to imply that it applied only in the circumstances described in paragraph 52A.

BC4 Consequently, the Board decided to clarify that the requirements in paragraph 52B of IAS 12 (now proposed as paragraph 58A) apply to all income tax consequences of dividends.

BC5 The Board noted that this proposed amendment should not be interpreted to mean that an entity recognises in profit or loss the income tax consequences of all payments on financial instruments classified as equity. Rather, an entity would exercise judgement in determining whether payments on such instruments are distributions of profits (ie dividends). If they are, then the requirements in paragraph 52B (now proposed as paragraph 58A) apply. If they are not, then the requirements of paragraph 61A of IAS 12 apply to the income tax consequences of those payments.

BC6 The Board decided not to propose including requirements on how to determine whether payments on financial instruments classified as equity are distributions of profits, for the following reasons:

(a) including indicators or requirements that distinguish distributions of profits from other distributions goes beyond the scope of an amendment to IAS 12. It would affect several other IFRS Standards and Interpretations, with a risk of unintended consequences if the Board were to attempt to define or describe distributions of profits.

(b) the proposed amendments do not change the determination of what is, and is not, a distribution of profits. They simply clarify that the requirements in paragraph 52B (now proposed as paragraph 58A) apply to all income tax consequences of dividends.

Proposed amendments to IAS 23 *Borrowing Costs*

Introduction

The Board proposes the following amendments to IAS 23 *Borrowing Costs*.

Borrowing costs eligible for capitalisation

Paragraph 14 of IAS 23 specifies how to determine the amount of borrowing costs eligible for capitalisation when an entity borrows funds generally and uses them to obtain a qualifying asset. The Board proposes to amend that paragraph to clarify that when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made specifically to obtain that qualifying asset as part of the funds that it has borrowed generally.

[Draft] Amendments to IAS 23 *Borrowing Costs*

Paragraph 14 is amended, and paragraphs 28A and 29D are added. Deleted text is struck through and new text is underlined. Paragraphs 12 and 22 have not been amended but have been included for ease of reference.

Recognition

Borrowing costs eligible for capitalisation

...

12 **To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.**

...

14 **To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period<u>.</u> ~~, other than~~ <u>An entity shall exclude from this calculation</u> borrowings made specifically for the purpose of obtaining a qualifying asset <u>until substantially all the activities necessary to prepare that asset for its intended use or sale are complete</u>. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.**

...

Cessation of capitalisation

22 **An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.**

...

Transitional provisions

...

<u>28A</u> <u>[Draft] *Annual Improvements to IFRS Standards 2015–2017 Cycle*, issued in [month], amended paragraph 14. An entity shall apply those amendments to borrowing costs incurred on or after the beginning of the first annual period beginning on or after [date to be decided after exposure].</u>

Effective date

...

29D [Draft] *Annual Improvements to IFRS Standards 2015–2017 Cycle*, issued in [month], amended paragraph 14. An entity shall apply those amendments for annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

Basis for Conclusions on the proposed amendments to IAS 23 *Borrowing Costs*

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

BC1 The Board received a request to clarify whether an entity includes borrowings made specifically to obtain a qualifying asset in general borrowings when the qualifying asset is ready for its intended use or sale. Paragraph 14 of IAS 23 requires an entity, when determining the funds that it borrows generally, to exclude 'borrowings made specifically for the purpose of obtaining a qualifying asset'. The Board observed that an entity might misinterpret those words to mean that funds borrowed generally would exclude funds outstanding that were originally borrowed specifically to obtain a qualifying asset that is now ready for its intended use or sale.

BC2 The Board noted that the reference in paragraph 14 to the exclusion of 'borrowings made specifically for the purpose of obtaining a qualifying asset' should not be interpreted to apply to borrowings originally made specifically to obtain a qualifying asset that is ready for its intended use or sale. If any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing then becomes part of the funds that an entity borrows generally. The Board proposes to amend paragraph 14 of IAS 23 to clarify this requirement.

BC3 Development of a qualifying asset may take a long time. Moreover, the development of some assets currently in use may have been completed many years ago. Therefore, the Board concluded that the costs of gathering the information required to capitalise borrowing costs retrospectively may exceed the potential benefits. Accordingly, the Board proposes to require prospective application of the proposed amendments—ie the proposed amendments would apply only to borrowing costs incurred on or after the date of first applying the amendments.

Proposed amendments to IAS 28 *Investments in Associates and Joint Ventures*

Introduction

The Board proposes the following amendments to IAS 28 *Investments in Associates and Joint Ventures*.

Long-term interests in an associate or joint venture

The Board proposes to clarify that an entity is required to apply IFRS 9 *Financial Instruments*, including its impairment requirements, to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied.

[Draft] Amendments to IAS 28 *Investments in Associates and Joint Ventures*

Paragraphs 14A, 45E and 45F are added and paragraph 41 is deleted. Deleted text is struck through and new text is underlined. Paragraph 14 has not been amended, but has been included for ease of reference.

Equity Method

...

14 IFRS 9 *Financial Instruments* does not apply to interests in associates and joint ventures that are accounted for using the equity method. When instruments containing potential voting rights in substance currently give access to the returns associated with an ownership interest in an associate or a joint venture, the instruments are not subject to IFRS 9. In all other cases, instruments containing potential voting rights in an associate or a joint venture are accounted for in accordance with IFRS 9.

14A An entity also applies IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include financial instruments that are long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture (see paragraph 38).

...

Application of the equity method

Impairment losses

...

41 [Deleted] ~~The entity applies the impairment requirements in IFRS 9 to its other interests in the associate or joint venture that are in the scope of IFRS 9 and that do not constitute part of the net investment.~~

...

Effective date and transition

...

45E [Draft] *Annual Improvements to IFRS 2015–2017 Cycle*, issued in [month], added paragraph 14A and deleted paragraph 41. An entity shall apply those amendments retrospectively in accordance with IAS 8 for annual periods beginning on or after 1 January 2018, except as specified in paragraph 45F. Earlier application is permitted.

45F An entity shall restate comparative information to reflect the [draft] amendments if the entity restates comparative information in accordance with IFRS 9. If an entity does not restate comparative information in accordance with IFRS 9, the entity may choose to restate comparative information to reflect the application of IAS 39. Similarly, if an insurer applies the temporary exemption from IFRS 9 in accordance with IFRS 4 *Insurance Contracts*, the insurer may choose to restate comparative information to reflect the application of IAS 39.

[Draft] Consequential amendments to IFRS Standards

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

Paragraph 39AE is added.

Effective date

...

39AE [Draft] *Annual Improvements to IFRS 2015–2017 Cycle*, issued in [month], added paragraph E8. An entity shall apply that amendment for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

In Appendix E, paragraph E8 and related heading are added.

Appendix E

Short-term exemptions from IFRSs

This appendix is an integral part of the IFRS.

...

Exemption from the requirement to restate comparative information for the amendments to IAS 28 (issued in [month])

E8 If an entity's first IFRS reporting period begins before 1 January 2019 and it presents comparative information that does not reflect the application of IFRS 9 (issued in 2014) in its first IFRS financial statements, the entity is not required to reflect the application of the [draft] amendments to IAS 28 (issued in [month]) in that comparative information.

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

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

BC1 The Board received a request to clarify whether IFRS 9 *Financial Instruments* applies to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied (hereafter referred to as long-term interests). The request asked whether long-term interests are within the scope of IFRS 9 and, if so, whether the impairment requirements in IFRS 9 apply to such long-term interests.

BC2 Paragraph 2.1(a) of IFRS 9 states that the scope of IFRS 9 excludes interests in associates and joint ventures that an entity accounts for in accordance with IAS 28. Paragraph 38 of IAS 28 explains that interests in an associate or joint venture subject to the allocation of losses are: (a) investments that an entity accounts for using the equity method; and (b) long-term interests. The net investment, which includes long-term interests, is then subject to the impairment requirements in paragraphs 40 and 41A–43 of IAS 28. In the light of these requirements in IFRS 9 and IAS 28, some think it is unclear whether paragraph 2.1(a) of IFRS 9 excludes from the scope of IFRS 9 only interests to which an entity applies the equity method, or whether it also excludes long-term interests. Discussions at the IFRS Interpretations Committee indicated that some view long-term interests as being within the scope of IFRS 9 but not subject to the impairment requirements in IFRS 9. Those with this view reach this conclusion because paragraph 41 of IAS 28 states that the impairment requirements in IFRS 9 apply to interests that do not form part of the net investment, and paragraph 38 states that long-term interests are part of the net investment.

BC3 In considering the request, the Board and the IFRS Interpretations Committee discussed the accounting for long-term interests applying the existing requirements in IFRS 9 and IAS 28, without reconsidering those requirements. Both bodies noted that the request was narrowly and clearly defined. They concluded that they could respond to the request more efficiently by considering only the question asked. They noted that any reconsideration of the accounting for long-term interests could not be undertaken as a narrow-scope project and would be likely to involve reconsideration of the equity method, a topic which is included in the Board's pipeline of future research projects.[1] Consequently, the focus of both bodies' discussions, and of these proposed amendments, was limited to clarifying the Board's intentions when it issued the existing requirements in IFRS 9 and IAS 28.

BC4 Paragraph 41 of IAS 28 reiterates that IFRS 9 applies to an entity's interests in an associate or joint venture that do not form part of the net investment. It does not change the scope of the impairment requirements in IFRS 9. The Board noted that the expected credit loss impairment model in IFRS 9 is part of, and interlinked with, amortised cost accounting in IFRS 9. Consequently, an entity

1 See *IASB® Work Plan 2017–2021 (Feedback Statement on the 2015 Agenda Consultation)* for information about the Board's research pipeline.

could not apply amortised cost accounting in IFRS 9 without also applying the impairment requirements in that Standard.

BC5 In addition, paragraph 2.1(a) of IFRS 9 excludes only those interests in an associate or joint venture to which the equity method is applied. The Board noted that IAS 28 does not specify how to account for long-term interests. IAS 28 mentions long-term interests and the net investment, which includes long-term interests, only in the context of recognising losses of an associate or joint venture and impairment. Accordingly, IAS 28 does not specify general recognition or measurement requirements for long-term interests and, as such, long-term interests are not accounted for in accordance with IAS 28, as envisaged in paragraph 2.1(a) of IFRS 9. The Board also noted that paragraph 14 of IAS 28 states that 'IFRS 9 *Financial Instruments* does not apply to interests in associates and joint ventures that are accounted for using the equity method'.

BC6 Accordingly, the Board concluded that paragraph 2.1(a) of IFRS 9 excludes from the scope of IFRS 9 only those interests to which the equity method is applied, and not long-term interests. The Board proposes to amend IAS 28 to clarify those requirements.

Effective date and transition

BC7 The Board proposes to align the effective date of the proposed amendments with the effective date of IFRS 9, which is 1 January 2018, with earlier application permitted. This is because the proposed amendments clarify the applicability of IFRS 9 to long-term interests.

BC8 The Board acknowledges the short period between the expected date of issuing the amendments and the proposed effective date. However, the Board noted the benefit for entities in applying the proposed amendments for the first time in 2018—if an entity first applies the amendments in 2018, it would be able to use the transition reliefs in IFRS 9 and incorporate the accounting for long-term interests into its IFRS 9 implementation plans. Those reliefs would be unavailable to an entity after it first applies IFRS 9.

BC9 The Board also considers it feasible for entities to apply the proposed amendments for annual periods beginning on or after 1 January 2018, for the following reasons:

(a) when it initially applies IFRS 9, an entity is required to determine a carrying amount for long-term interests applying the requirements in IFRS 9. In effect, this replaces the carrying amount of long-term interests previously determined applying other Standards.

(b) the proposed amendments do not affect the implementation of IFRS 9 because the proposed amendments do not affect the requirements in IFRS 9; and

(c) the proposed amendments include transition relief that provides an exemption from applying the amendments in comparative periods.

BC10 The Board proposes retrospective application of the proposed amendments on the grounds that those amendments clarify the applicability of IFRS 9 to long-term interests and the proposed effective date is aligned with that of IFRS 9. The Board also proposes to provide relief on transition from applying the amendments in comparative periods if an entity does not restate comparative information in accordance with IFRS 9. This is because:

(a) if an entity has chosen not to restate comparative information in accordance with IFRS 9, there is likely to be little benefit in requiring the entity to restate comparative information to reflect the proposed amendments; and

(b) providing relief from applying the amendments in comparative periods would alleviate concerns about the short period between the expected date of issuing the amendments and the proposed effective date.

BC11 For the same reason as described in paragraph BC10(b), the Board proposes similar transition requirements for insurers electing, in accordance with IFRS 4 *Insurance Contracts*, to apply the temporary exemption from IFRS 9. The proposed amendments would affect such insurers if they had not previously applied IAS 39 *Financial Instruments: Recognition and Measurement* to long-term interests.

BC12 Paragraph E1 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* exempts first-time adopters from the requirement to present comparative information that complies with IFRS 9. This short-term relief is available for first-time adopters whose first IFRS reporting period begins before 1 January 2019. For the reasons set out in paragraph BC10, the Board also proposes to provide those first-time adopters with relief from applying the amendments in comparative periods.

Alternative view

Alternative view on the proposed amendments to IAS 28 in the Exposure Draft *Annual Improvements to IFRS Standards 2015–2017 Cycle* published in January 2017

AV1 Mr Ochi voted against the publication of the proposed amendments to IAS 28 in the Exposure Draft *Annual Improvements to IFRS Standards 2015–2017 Cycle*.

AV2 Mr Ochi disagrees with proposing amendments to IAS 28 without also specifying the types of interests in an associate or joint venture that an entity accounts for using the equity method, and the types of interests in such entities that an entity accounts for applying IFRS 9. Mr Ochi thinks that interests in an associate or joint venture should be subject to either the requirements in IFRS 9 or the requirements in IAS 28, but not both.

AV3 Mr Ochi is of the view that the types of long-term interests that, in substance, form part of the net investment are quite limited. He therefore thinks that the Board could specify the types of interests that form part of the net investment within a relatively short period of time.

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The International Accounting Standards Board is the independent standard-setting body of the IFRS Foundation

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