AASB Exposure Draft

ED 229
November 2012

Annual Improvements to IFRSs 2011–2013 Cycle

Comments to the AASB by 4 February 2013

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 4 February 2013. 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 18 February 2013. 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 to the IFRS Foundation website (www.ifrs.org), using the 'Comment on a proposal' page.

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 submissions being treated as confidential. The latter will occur only 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:

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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 4 February 2013. 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.

This Exposure Draft does not give rise to any particular implications for Tier 2 disclosures.

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; 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.

November 2012

Exposure Draft ED/2012/2

Annual Improvements to IFRSs 2011–2013 Cycle

Comments to be received by 18 February 2013

IFRS®

Annual Improvements Cycle 2011–2013

(Proposed amendments to International Financial Reporting Standards)

Comments to be received by 18 February 2013

Exposure Draft ED/2012/2 *Annual Improvements Cycle 2011–2013* (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 **18 February 2013**. 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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Introduction and invitation to comment

Introduction

The International Accounting Standards Board (IASB) has published this Exposure Draft of proposed amendments to International Financial Standards (IFRSs) as part of its Annual Improvements project.

The project provides a streamlined process for dealing efficiently with a collection of non-urgent amendments to IFRSs. These amendments meet the criteria for the IASB's Annual Improvements process set out in the Due Process Handbook for the IASB. The criteria help decide whether a matter relating to the clarification or correction of IFRSs should be addressed using the annual improvements process.

Issues submitted by interested parties for consideration within the annual improvements process are considered and discussed by the IFRS Interpretations Committee (the Interpretations Committee) and the IASB. These discussions take place in the Interpretations Committee's and the IASB's public meetings. Information about issues that were considered but rejected, because they did not meet the Annual Improvements criteria, can be found on the Annual Improvements web page of the public website of the IFRS Foundation.

Reasons for issuing this Exposure Draft

This Exposure Draft includes a chapter for each Standard for which an amendment is proposed. Each chapter includes:

(a) an explanation of the proposed amendment;

(b) the paragraphs of the Standard or additional material that are affected by the proposed amendment;

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

(d) the basis for the IASB's conclusions in proposing the amendment.

Some proposed amendments involve consequential amendments to other Standards. Those consequential amendments are included in the chapter that sets out the proposed amendments to the relevant Standard from which the consequential amendment arises.

Invitation to comment

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

(a) answer the questions as stated;

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

(c) contain a clear rationale; and

(d) describe any alternative that the IASB should consider, if applicable.

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

The IASB will consider all comments received in writing by **18 February 2013**. In considering the comments, the IASB 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 IASB's proposal to amend the Standard 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*	Meaning of effective IFRSs.
IFRS 3 *Business Combinations*	Scope exceptions for joint ventures.
IFRS 13 *Fair Value Measurement*	Scope of paragraph 52 (portfolio exception).
IAS 40 *Investment Property*	Clarifying the interrelationship of IFRS 3 *Business Combinations* and IAS 40 when classifying property as investment property or owner-occupied property.

Approval by the Board of *Annual Improvements Cycle 2011–2013* (Proposed amendments to International Financial Reporting Standards) published in November 2012

The Exposure Draft *Annual Improvements Cycle 2011–2013* (Proposed amendments to International Financial Reporting Standards) was approved for publication by the fifteen members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Ian Mackintosh	Vice-Chairman
Stephen Cooper	
Philippe Danjou	
Martin Edelmann	
Jan Engström	
Patrick Finnegan	
Amaro Luiz de Oliveira Gomes	
Prabhakar Kalavacherla	
Patricia McConnell	
Takatsugu Ochi	
Paul Pacter	
Darrel Scott	
Chungwoo Suh	
Wei-Guo Zhang	

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

Introduction

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

Meaning of effective IFRSs

The IASB was asked to consider the meaning of 'each IFRS effective at the end of an entity's first IFRS reporting period' as used in paragraph 7 of IFRS 1. The IASB had been informed that there was uncertainty about which version of an IFRS should be applied in an entity's first IFRS financial statements in circumstances where a new or a revised IFRS that is not yet mandatory, but that can be adopted early, has been issued. The IASB had been asked to clarify which version of the IFRS should be applied. The IASB proposes to amend paragraph BC11 and add paragraph BC11A to clarify that if a new IFRS is not yet mandatory but permits early application, that IFRS is permitted, but not required, to be applied in the entity's first IFRS financial statements.

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

The IASB proposes to amend the Basis for Conclusions on IFRS 1 *First-time Adoption of International Financial Reporting Standards*, which is not part of the Standard, by amending paragraph BC11 and adding paragraph BC11A. New text is underlined and deleted text is struck through.

BC11 Paragraphs 7–9 of the IFRS require a first-time adopter to apply ~~the current~~ a single version of each IFRS~~s~~, throughout each period presented in its first IFRS financial statements ~~without considering superseded or amended versions~~. This:

(a) enhances comparability, because the information in a first-time adopter's first IFRS financial statements is prepared on a consistent basis over time;

(b) gives users comparative information that was prepared using later versions of IFRSs that the IASB regards as superior to superseded versions; and

(c) avoids unnecessary costs.

BC11A Paragraph 7 requires an entity to use the IFRSs that are effective at the end of its first IFRS reporting period. Paragraph 8 allows a first-time adopter to apply a new IFRS that is not yet mandatory if that IFRS permits early adoption. Notwithstanding the advantages set out in paragraph BC11 of applying a more recent version of an IFRS, paragraphs 7 and 8 permit an entity to use either the currently mandatory IFRS or the new IFRS that is not yet mandatory, if that IFRS permits early application. Paragraph 7 requires an entity to apply the same version of the IFRS throughout the periods covered by the entity's first IFRS financial statements. Consequently, if a first-time adopter chooses to early apply a new IFRS, that new IFRS will be applied throughout the periods presented in its first IFRS financial statements, unless this IFRS provides an exemption or an exception that permits or requires otherwise.

Proposed amendment to IFRS 3 *Business Combinations*

Introduction

The IASB proposes the following amendment to IFRS 3 *Business Combinations* (as revised in 2008).

Scope exceptions for joint ventures

The IASB proposes to amend paragraph 2(a) to:

(a) exclude the formation of all types of joint arrangements as defined in IFRS 11 *Joint Arrangements*, ie joint ventures and joint operations, from the scope of IFRS 3; and

(b) clarify that the scope exception only applies to the financial statements of the joint venture or the joint operation itself.

Proposed amendment to IFRS 3 *Business Combinations* (as revised in 2008)

Paragraph 2 is amended and paragraph 64H is added. New text is underlined and deleted text is struck through.

Scope

2 This IFRS applies to a transaction or other event that meets the definition of a business combination. This IFRS does not apply to:

(a) the accounting for the formation of a joint arrangement ~~joint venture~~ in the financial statements of the joint arrangement itself.

(b) ...

Effective date

...

64H *Annual Improvements Cycle 2011–2013* issued in [date] amended paragraph 2(a). An entity shall apply that amendment retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after 1 January 2014. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

Basis for Conclusions on the proposed amendment to IFRS 3 *Business Combinations* (as revised in 2008)

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

Scope

BC1 The IFRS Interpretations Committee (the Interpretations Committee) observed that there was uncertainty about whether paragraph 2(a) of IFRS 3, which excludes the formation of joint ventures from the scope of IFRS 3, should have been amended to refer to joint arrangements when IFRS 11 was issued. The IASB did not change the wording of the scope exclusion in paragraph 2(a) of IFRS 3 for 'the formation of a joint venture' when it replaced IAS 31 *Interests in Joint Ventures* with IFRS 11 *Joint Arrangements*, although the Interpretations Committee understood that the IASB intended not to change the scope of IFRS 3. IFRS 11 had changed the use of the term 'joint venture' from having a general meaning that included 'jointly controlled operations', 'jointly controlled assets' and 'jointly controlled entities', to meaning a specific type of joint arrangement, which does not include 'joint operations'.

BC2 There was also uncertainty about whether the scope exclusion in paragraph 2(a) of IFRS 3 only addresses:

(a) the accounting by the joint arrangements themselves in their financial statements; or

(b) the accounting by the parties to the joint arrangement for their interests in the joint arrangement.

BC3 The IASB noted that paragraph 2(a) of IFRS 3 should exclude formations of every type of joint arrangement (ie joint ventures and joint operations) from the scope of IFRS 3. It also noted that paragraph 2(a) of IFRS 3 only addresses the accounting by the joint arrangements themselves in their financial statements, ie it does not apply to the accounting by the parties to the joint arrangement for their interests in the joint arrangement.

BC4 The IASB concluded that paragraph 2(a) of IFRS 3 should be amended to address all types of joint arrangements and to remove uncertainty about the financial statements to which it applies.

BC5 Consequently, the IASB proposes to amend paragraph 2(a) of IFRS 3 to:

(a) exclude the formation of all types of joint arrangements from the scope of IFRS 3 by replacing 'joint venture' with 'joint arrangement'; and

(b) clarify that it only excludes the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself from the scope of IFRS 3.

Proposed amendment to IFRS 13 *Fair Value Measurement*

Introduction

The IASB proposes the following amendment to IFRS 13 *Fair Value Measurement*.

Scope of paragraph 52 (portfolio exception)

Paragraph 52 of IFRS 13 defines the scope of the exception that permits an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis if the entity manages that group of financial assets and financial liabilities on the basis of its net exposure to either market risk or credit risk. This is referred to as the portfolio exception. The IASB proposes to amend paragraph 52 to clarify that the portfolio exception applies to all contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 *Financial Instruments: Presentation*.

Proposed amendment to IFRS 13 *Fair Value Measurement*

Paragraph 52 is amended and paragraph C4 is added. New text is underlined and deleted text is struck through.

Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk

52 The exception in paragraph 48 applies only to financial assets, ~~and~~ financial liabilities and other contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*. The references to financial assets and financial liabilities in paragraphs 48–51 and 53–56 should be read as applying to all contracts within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities in IAS 32 *Financial Instruments: Presentation*.

Effective date and transition

C4 *Annual Improvements 2011–2013* cycle, issued in [date], amended paragraph 52. An entity shall apply that amendment retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after 1 January 2014. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

Basis for Conclusions on the proposed amendment to IFRS 13 *Fair Value Measurement*

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

Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk

BC1 After issuing IFRS 13 the IASB was made aware that it was not clear whether the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the 'portfolio exception') set out in paragraph 52 includes all contracts that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*. In particular, questions were raised about whether the scope included contracts that are accounted for as if they were financial instruments, but that do not meet the definitions of financial assets or financial liabilities in IAS 32 *Financial Instruments: Presentation*, such as some contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments.

BC2 The IASB did not intend to exclude such contracts from the scope of the portfolio exception. Consequently, the IASB proposes to amend paragraph 52 of this Standard to clarify that the portfolio exception applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32.

Proposed amendment to IAS 40 *Investment Property*

Introduction

The IASB proposes the following amendment to IAS 40 *Investment Property*.

Acquisition of investment property: interrelationship with IFRS 3

The IASB proposes to amend IAS 40 to clarify that:

(a) judgement is required to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3; and

(b) that this judgement is not based on paragraphs 7–15 of IAS 40 but is instead based on the guidance in IFRS 3.

Proposed amendment to IAS 40 *Investment Property*

Before paragraph 6, a heading is added. Paragraph 14A is added. After paragraph 84 a heading and paragraph 84A are added. Paragraph 85D is added. Paragraphs 6 and 14 have been included for ease of reference but are not proposed for amendment.

Classification of property as investment property or owner-occupied property

6 **A *property interest* that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model set out in paragraphs 33–55 for the asset recognised. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model. When this classification alternative is selected, any interest so classified is included in the disclosures required by paragraphs 74–78.**

...

14 Judgement is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of investment property and with the related guidance in paragraphs 7–13. Paragraph 75(c) requires an entity to disclose these criteria when classification is difficult.

14A Judgement is also needed to determine whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of IFRS 3 *Business Combinations*. Reference should be made to IFRS 3 to determine whether it is a business combination. The discussion in paragraphs 7–15 of this Standard relates to whether or not property is owner-occupied property or investment property and not to determine whether or not the acquisition of property is a business combination as defined in IFRS 3. Determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 and includes an investment property as defined in this Standard requires the separate application of both Standards.

...

Transitional provisions

Business Combinations

84A ***Annual Improvements Cycle 2011–2013* issued in [date] added paragraph 14A and a heading before paragraph 6. An entity shall apply that amendment prospectively for acquisitions of investment property from**

the beginning of the first period for which it adopts that amendment. Consequently, amounts recognised for acquisitions of investment property in prior periods shall not be adjusted.

Effective date

...

85D *Annual Improvements Cycle 2011–2013* issued in [date] added paragraphs 14A and 84A and a heading before paragraph 6. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

Basis for Conclusions on the proposed amendment to IAS 40 *Investment Property*

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

Classification of property as investment property or owner-occupied property

Acquisition of investment property: interrelationship with IFRS 3

BC1 The IFRS Interpretations Committee (the Interpretations Committee) reported to the IASB that practice differed in delineating the scope of IFRS 3 *Business Combinations* and IAS 40 *Investment Property*:

(a) Some considered both Standards as mutually exclusive if investment property with associated insignificant ancillary services, as specified in paragraph 11 of IAS 40, is acquired. They view property, together with any associated insignificant ancillary services, as being a single 'unit of account' and they consider this unit of account to be one asset called 'investment property'.

(b) Others did not view IFRS 3 and IAS 40 as being mutually exclusive if investment property with associated insignificant ancillary services, as specified in paragraph 11 of IAS 40, is acquired; nor did they view the definitions of a business as defined in Appendix A of IFRS 3 and investment property as defined in paragraph 5 of IAS 40 as being interrelated. They think that an entity acquiring investment property has to determine whether it meets both definitions.

BC2 The IASB noted that paragraphs 8–14 of IAS 40 have been developed to differentiate investment property from owner-occupied property, or to delineate the scope of IAS 40 to distinguish it from the scope of IAS 16 *Property, Plant and Equipment*. In addition, neither IFRS 3 nor IAS 40 contains a limitation in its scope that restricts its application when the other Standard applies, ie there is nothing within the scope of each Standard to suggest that they are mutually exclusive. The IASB also noted that the wording of IAS 40 is not sufficiently clear about the interrelationship of the two Standards.

BC3 The IASB agrees with the proponents of the view presented in paragraph BC1(b) that IFRS 3 and IAS 40 are not mutually exclusive. It proposes to amend IAS 40 to state explicitly that judgement is also needed to determine whether the transaction is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of IFRS 3 that includes an investment property. That judgement is not based on paragraphs 7–15 of IAS 40 but is instead based on the guidance in IFRS 3. Only the judgement needed to distinguish investment property from owner-occupied property is based on these paragraphs.

BC4 Consequently, the IASB proposes to clarify the interrelationship of the two Standards by adding paragraph 14A and a heading before paragraph 6 to IAS 40.

Effective date and transition

BC5 The IASB proposes to add paragraphs 14A, 84A and 85D and a heading before paragraph 6 of IAS 40 to clarify the interrelationship between IFRS 3 and IAS 40. It considered the transitional provisions and effective date of the amendment to IAS 40. The IASB noted that applying IFRS 3 to transactions that have previously been accounted for as the acquisition of an asset or a group of assets might involve the use of hindsight in determining the acquisition-date fair values of the identifiable assets acquired and of the liabilities assumed as part of the business combination transaction. Consequently, it proposes that an entity would apply the proposed amendments to IAS 40 prospectively for annual periods beginning on or after 1 January 2014.