May 2012

Exposure Draft ED/2012/1

Annual Improvements to IFRSs 2010–2012 Cycle

Comments to be received by 5 September 2012

IFRS™

Annual Improvements to IFRSs 2010–2012 Cycle

(Proposed amendments to International Financial Reporting Standards)

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ED/2012/1

This exposure draft *Annual Improvements to IFRSs 2010–2012 Cycle* 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 an International Financial Reporting Standard (IFRS). Comments on the exposure draft and the Basis for Conclusions should be submitted in writing so as to be received by 5 September 2012. Respondents are asked to send their comments electronically to the IFRS Foundation 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 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 the revision to the Due Process Handbook for the IASB. The revised criteria were developed to help to determine whether matters relating to the clarification or correction of IFRSs should be addressed using the Annual Improvements process, rather than in separate exposure drafts for each issue. The year dates of this cycle (2010–2012) have been included in the title to make it easier to distinguish this set of proposals from those of other cycles of the Annual Improvements project.

Suggestions received 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 page, http://go.ifrs.org/rejected+issues, of the IFRS Foundation website.

Reasons for issuing this exposure draft

This 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) the paragraph(s) of the IFRS that is (are) affected by the proposed amendment;

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

(d) 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 underlying 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) 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 Board should consider, if applicable.

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

The Board will consider all comments received in writing by **5 September 2012**. 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 2 *Share-based Payment*	Definition of 'vesting condition'
IFRS 3 *Business Combinations*	Accounting for contingent consideration in a business combination
IFRS 8 *Operating Segments*	Aggregation of operating segments
	Reconciliation of the total of the reportable segments' assets to the entity's assets
IFRS 13 *Fair Value Measurement*	Short-term receivables and payables
IAS 1 *Presentation of Financial Statements*	Current/non-current classification of liabilities
IAS 7 *Statement of Cash Flows*	Interest paid that is capitalised
IAS 12 *Income Taxes*	Recognition of deferred tax assets for unrealised losses
IAS 16 *Property, Plant and Equipment* IAS 38 *Intangible Assets*	Revaluation method—proportionate restatement of accumulated depreciation
IAS 24 *Related Party Disclosures*	Key management personnel
IAS 36 *Impairment of Assets*	Harmonisation of disclosures for value in use and fair value less costs of disposal

Approval by the Board of *Annual Improvements to IFRSs 2010–2012 Cycle* (Proposed amendments to International Financial Reporting Standards) published in May 2012

The exposure draft *Annual Improvements to IFRSs 2010–2012 Cycle* (Proposed amendments to International Financial Reporting Standards) was approved for publication by the fourteen members of the International Accounting Standards Board.

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

Proposed amendment to IFRS 2 *Share-based Payment*

Introduction

The Board proposes the following amendment to IFRS 2 *Share-based Payment*.

Definition of vesting condition

The Board proposes to clarify the definition of 'vesting conditions' by separately defining a 'performance condition' and a 'service condition' in Appendix A of IFRS 2 *Share-based Payment*.

Proposed amendment to IFRS 2 *Share-based Payment*

The Board proposes to amend IFRS 2 by adding paragraph 63B and amending paragraphs 15 and 19 and Appendix A Defined terms, which is an integral part of the IFRS. In Appendix A, the definition of 'vesting conditions' is amended and the definitions of 'performance condition' and 'service condition' are added.

The proposed amendment is marked up in the text of IFRS 2 (new text is underlined and deleted text is struck through). The definition of 'market condition' is not proposed for amendment but is included here for ease of reference.

The following Basis for Conclusions accompanies, but is not part of, the proposed amendment. It sets out the reasons why the Board proposes the amendment. If the amendment is approved, this basis will be included in the Basis for Conclusions on IFRS 2 *Share-based Payment*, which is not part of the IFRS.

Equity-settled share-based payment transactions

...

Transactions in which services are received

...

15 If the equity instruments granted do not vest until the counterparty completes a specified period of service, the entity shall presume that the services to be rendered by the counterparty as consideration for those equity instruments will be received in the future, during the *vesting period*. The entity shall account for those services as they are rendered by the counterparty during the vesting period, with a corresponding increase in equity. For example:

(a) if an employee is granted share options conditional upon completing three years' service <u>(ie a *service condition*)</u>, then the entity shall presume that the services to be rendered by the employee as consideration for the share options will be received in the future, over that three-year vesting period.

(b) if an employee is granted share options conditional upon the achievement of a ~~performance condition~~ <u>*performance condition*</u> and remaining in the entity's employ until that performance condition is satisfied, and the length of the vesting period varies depending on when that performance condition is satisfied, the entity shall presume that the services to be rendered by the employee as consideration for the share options will be received in the future, over the expected vesting period. ...

Transactions measured by reference to the fair value of the equity instruments granted

...

Treatment of vesting conditions

19 A grant of equity instruments might be conditional upon satisfying a specified *vesting condition* or specified ~~*vesting conditions*~~ vesting conditions. ...

Effective date

...

63B *Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] amended paragraphs 15 and 19 and the definition of *vesting conditions* and added definitions for *performance condition* and *service condition* to Appendix A Defined terms. An entity shall apply that amendment 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.

Appendix A
Defined terms

...

market condition A condition upon which the exercise price, vesting or exercisability of an **equity instrument** depends that is related to the market price of the entity's **equity instruments**, such as attaining a specified share price or a specified amount of **intrinsic value** of a **share option**, or achieving a specified target that is based on the market price of the entity's **equity instruments** relative to an index of market prices of **equity instruments** of other entities.

...

performance condition A **vesting condition** that requires:

(a) the counterparty to complete a specified period of service; and

(b) specified performance targets to be met while the counterparty is rendering the service required in (a).

A performance target is defined by reference to the entity's own operations (or activities) or the price (or value) of its **equity instruments** (including shares and **share options**). A performance target might relate either to the performance of the entity as a whole or to some part of the entity, such as a division or an individual employee.

...

service condition A **vesting condition** that requires the counterparty to complete a specified period of service. If the counterparty, regardless of the reason, ceases to provide service during the **vesting period**, the counterparty has failed to satisfy the condition. A service condition does not require a performance target to be met.

...

vesting conditions ~~The~~ A condition~~s~~ that determines whether the entity receives the services that entitle the counterparty to receive cash, other assets or **equity instruments** of the entity, under a **share-based payment arrangement**. A ~~V~~vesting condition~~s~~ ~~are~~ is either ~~service conditions~~ a **service condition** or ~~performance conditions~~ a **performance condition**. ~~Service conditions require the counterparty to complete a specified period of service. Performance conditions require the counterparty to complete a specified period of service and specified performance targets to be met (such as a specified increase in the entity's profit over a specified period of time).~~ A ~~performance condition~~ **performance condition** might include a **market condition**.

Basis for Conclusions on the proposed amendment to IFRS 2 *Share-based Payment*

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

Definition of vesting condition

BC1 The Board identified the need to clarify the definition of 'vesting conditions' in IFRS 2 to ensure the consistent classification of conditions attached to a share-based payment. Currently, this IFRS does not separately define a 'performance condition' or a 'service condition', but instead describes both concepts within the definition of 'vesting conditions'.

BC2 The Board proposes to separate the definitions of a 'performance condition' and a 'service condition' from the definition of a 'vesting condition' and thus make the description of each condition clearer.

BC3 In its proposed revision, the Board addresses the following concerns that have been raised about these definitions:

(a) the correlation between an employee's responsibility and the performance target;

(b) whether a share market index target may constitute a performance condition or a non-vesting condition;

(c) whether a performance target that refers to a longer period than the required service period may constitute a performance condition; and

(d) whether the employee's failure to complete a required service period is considered to be a failure to satisfy a service condition.

Correlation between an employee's responsibility and the performance target

BC4 In its review of the definition of a 'performance condition', the Board observed that it is reasonable to assume that the performance target set by management for an employee's share-based payment appropriately incentivises the employee to provide an increased quality and/or quantity of service to benefit the entity. Consequently, the Board proposes that the definition of a 'performance condition' should make clear that a performance target may relate either to the performance of the entity as a whole or to some part of the entity, such as a division or an individual employee.

Whether a share market index target may constitute a performance condition or a non-vesting condition

BC5 The Board noted that for a target to constitute a performance condition, the target needs to be 'within the influence of' the employee and also in the interest of the entity. The Board observed that a share market index target may be predominantly affected by many external variables or factors involved in its determination, including macroeconomic factors such as the risk-free interest rate or foreign exchange rates. It is therefore remote from the influence of the employee. Accordingly, the Board observed that the share market index target is a non-vesting condition because it is not related to the performance of the entity, even if the entity's shares form part of that index. Consequently, the Board proposes that the definition of a 'performance condition' should make clear that a performance target is defined by reference to the entity's own operations (or activities) or the price (or value) of its equity instruments (including shares and share options).

Whether a performance target that refers to a longer period than the required service period may constitute a performance condition

BC6 The Board observed that the current IFRS 2 does not explicitly require the duration of a performance target to be wholly within the period of the related service requirement for it to constitute a performance condition. However, the Board noted that the definition of 'vesting conditions' makes clear that a vesting condition (including a performance condition) must "determine whether the entity receives the services that entitle the counterparty to receive" the share-based payment. In addition, paragraph BC171A elaborates on the definition of a 'vesting condition' by highlighting a feature that distinguishes a performance condition from a non-vesting condition: a performance condition has an explicit or implicit service requirement and a non-vesting condition does not. Consequently, the Board proposes to make clear the length of the performance period within the definition of 'performance condition'. This is so that, in order to constitute a performance condition, any performance target needs to have an explicit or implicit service requirement for at least the period during which the performance target is being measured.

Whether the employee's failure to complete a required service period is considered to be a failure to satisfy a service condition

BC7 In considering a possible revision of the definition of 'service condition', the Board observed that in IFRS 2 there is no specific guidance on how to account for a share-based payment award resulting from the entity's termination of an employee's employment. The Board noted, however, that paragraph 19 of this IFRS regards the employee's failure to complete a specified service period as a failure to satisfy a service condition. Consequently, the Board proposes to make clear within the definition of a 'service condition' that if the employee fails to complete a specified service period, the employee fails to satisfy a service condition, regardless of what the reason for that failure is. The accounting consequence is that the compensation expense would therefore need to be reversed if an employee fails to complete a specified service period.

Proposed amendment to IFRS 3 *Business Combinations*

Introduction

The Board proposes the following amendment to IFRS 3 *Business Combinations* and consequential amendment to IFRS 9 *Financial Instruments* to clarify certain aspects of accounting for contingent consideration in a business combination.

Accounting for contingent consideration in a business combination

Classification of contingent consideration in a business combination

The Board thinks that an entity will only need to consider whether contingent consideration is a liability or an equity instrument when the contingent consideration is a financial instrument. Consequently, the Board proposes to clarify that contingent consideration is assessed as either a liability or an equity instrument only on the basis of the requirements of IAS 32 *Financial Instruments: Presentation*. Currently, IFRS 3 paragraph 40 refers not only to IAS 32, but also to 'other applicable IFRSs' in determining whether contingent consideration is classified as a liability or as an equity instrument. The Board proposes to clarify this by deleting the reference to 'other applicable IFRSs'.

Subsequent measurement of contingent consideration in a business combination

The Board proposes to clarify that contingent consideration that is not classified as an equity instrument is subsequently measured at fair value, with the corresponding gain or loss being recognised either in profit or loss or other comprehensive income in accordance with IFRS 9. Currently, IFRS 3 paragraph 58 requires subsequent measurement of contingent consideration at fair value, but refers to standards in which fair value is not necessarily the subsequent measurement basis. The Board proposes to clarify this contradiction by:

(a) deleting the reference to 'IAS 37 or other IFRSs as appropriate'; and

(b) amending the classification requirements of IFRS 9 to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes in fair value being presented in either profit or loss or other comprehensive income depending on the requirements of IFRS 9.

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

The Board proposes to amend IFRS 3, which involves a consequential amendment to IFRS 9. In IFRS 3 paragraphs 40 and 58 are amended and paragraph 64G is added. In IFRS 9 paragraphs 4.1.2 and 4.2.1 are amended and paragraph 7.1.4 is added.

The proposed amendment is marked up in the text of IFRS 3 and IFRS 9 (new text is underlined and deleted text is struck through).

The following Basis for Conclusions accompanies, but is not part of, the proposed amendment. It sets out the reasons why the Board proposes the amendment. If the amendment is approved, this basis will be included in the Basis for Conclusions on IFRS 3 *Business Combinations*, which is not part of the IFRS.

The acquisition method

...

Consideration transferred

...

Contingent consideration

...

40 The acquirer shall classify an obligation to pay contingent consideration <u>that meets the definition of a financial instrument</u> as a <u>financial</u> liability or as equity on the basis of the definitions of an equity instrument and a financial liability in paragraph 11 of IAS 32 *Financial Instruments: Presentation*~~, or other applicable IFRSs~~. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 58 provides guidance on the subsequent accounting for contingent consideration.

Subsequent measurement and accounting

...

Contingent consideration

58 Some changes in the fair value of contingent consideration that the acquirer recognises after the acquisition date may be the result of

additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date. Such changes are measurement period adjustments in accordance with paragraphs 45–49. However, changes resulting from events after the acquisition date, such as meeting an earnings target, reaching a specified share price or reaching a milestone on a research and development project, are not measurement period adjustments. The acquirer shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

(a) Contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity.

(b) Other c~~C~~ontingent consideration ~~classified as an asset or a liability that:~~

~~(i)~~ ~~is a financial instrument and is within the scope of IFRS 9 or IAS 39~~ shall be measured at fair value at each reporting date, with any resulting gain or loss recognised ~~either~~ in profit or loss for the period, unless the recognition of the resulting gain or loss is required ~~or~~ in other comprehensive income in accordance with IFRS 9.

~~(ii)~~ ~~is not within the scope of IFRS 9 shall be accounted for in accordance with IAS 37 or other IFRSs as appropriate.~~

Effective date and transition

Effective date

...

64G *Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] amended paragraphs 40 and 58. An entity shall apply that amendment to those paragraphs prospectively to business combinations for which the acquisition date is on or after 1 January 2015. Earlier application is permitted. If an entity applies that amendment earlier, it shall disclose that fact and at the same time apply IFRS 9 *Financial Instruments* (as amended by *Annual Improvements to IFRSs 2010–2012 Cycle*).

Proposed consequential amendment to IFRS 9 *Financial Instruments*

4.1 Classification of financial assets

...

4.1.2 A financial asset shall be measured at amortised cost if all ~~both~~ of the following conditions are met:

(a) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.

(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(c) The asset is not a contingent consideration to which IFRS 3 *Business Combinations* applies.

Paragraphs B4.1.1–B4.1.26 provide guidance on how to apply ~~these conditions~~ the conditions in (a) and (b).

4.2 Classification of financial liabilities

4.2.1 An entity shall classify all financial liabilities as subsequently measured at amortised cost using the *effective interest method*, except for:

(a) ...

(e) contingent consideration in a business combination (see IFRS 3 *Business Combinations*). Such financial liabilities shall be subsequently measured at fair value with changes in the fair value of the financial liabilities being presented in accordance with paragraphs 5.7.7–5.7.8 as if they had been designated at fair value through profit or loss at initial recognition.

7.1 Effective date

...

7.1.4 *Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] amended paragraphs 4.1.2 and 4.2.1. An entity shall apply that amendment prospectively to business combinations for which the acquisition date is on or after 1 January 2015. Earlier application is permitted. If an entity applies that amendment earlier, it shall disclose that fact and at the same time apply IFRS 3 *Business Combinations* (as amended by *Annual Improvements to IFRSs 2010–2012 Cycle*).

Basis for Conclusions on the proposed amendment to IFRS 3 *Business Combinations*

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

Accounting for contingent consideration in a business combination

BC1 The Board proposes to clarify the accounting for contingent consideration arising from business combinations.

Classification of contingent consideration in a business combination

BC2 The Board noted that the classification requirements in paragraph 40 are unclear as to when, if ever, 'other applicable IFRSs' would need to be used to determine the classification of contingent consideration as a financial liability or as an equity instrument. Consequently, the Board proposes to delete the reference to 'other applicable IFRSs' in paragraph 40.

Subsequent measurement of contingent consideration in a business combination

BC3 In addition, the Board noted that the requirements on subsequent measurement in paragraph 58 for contingent consideration that is a financial instrument within the scope of IFRS 9 *Financial Instruments* are inconsistent with the accounting requirements of IFRS 9. Because paragraph 58 refers to IFRS 9, which allows amortised cost measurement in certain circumstances, contingent consideration that is a financial liability might be classified as at amortised cost. This would conflict with the requirement in paragraph 58 that such contingent consideration should be subsequently measured at fair value. Consequently, the Board proposes to amend the classification requirements of IFRS 9 so that the subsequent measurement requirements of IFRS 9 that do not require the use of fair value do not apply to contingent consideration that arises from a business combination. The Board thinks that this will make clear that subsequent measurement of contingent consideration is required to be at fair value in accordance with paragraph 58. The Board thinks that this clarifies the original intention for subsequent measurement of contingent consideration as explained in paragraph BC355.

BC4 The Board considered removing from IFRS 3 all the references to other IFRSs (which would have included the references to IFRS 9) and instead including in IFRS 3 a requirement to measure all contingent consideration at fair value through profit and loss. However, the Board noted that this would not be a clarification, but would instead be a change to the intended requirements of IFRS 3. As explained in paragraph BC354, the Board's original intention for contingent consideration was that the fair value gains and losses should be presented in accordance with IAS 39 (now IFRS 9). IFRS 9 requires some changes in fair value to be recognised through other comprehensive income (for example changes in an entity's credit risk for certain types of financial liabilities). Consequently, the Board thinks that measuring the changes in fair value in accordance with IFRS 9 by reference to this standard is the best way of clarifying the original intention of IFRS 3 with respect to contingent consideration.

BC5 The Board also noted that the subsequent measurement requirements in paragraph 58(b) for contingent consideration that is not a financial instrument conflict with the measurement requirements in other applicable IFRSs. The conflict arises because paragraph 58 refers to changes in the fair value of contingent consideration but paragraph 58(b) requires contingent consideration to be measured in accordance with standards that do not require fair value as a measurement basis, for example, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Consequently, the Board proposes to delete the reference to 'IAS 37 or other IFRSs as appropriate' from paragraph 58(b). The proposal therefore maintains fair value as the subsequent measurement basis for all contingent consideration to which IFRS 3 applies. The Board thinks that this clarifies the original intention for subsequent measurement of contingent consideration as explained in paragraph BC355.

Disclosure

BC6 Some have questioned whether the disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* are intended to apply to contingent consideration because there are disclosure requirements for contingent consideration in IFRS 3. The Board thinks that it is appropriate for the disclosure requirements of IFRS 7 to apply to contingent consideration that is a financial instrument within the scope of IFRS 7. Consequently, the Board is not proposing any changes to the scope of IFRS 7.

Effective date and transition

BC7 The Board also considered whether the transitional provisions of paragraph 19 in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* should apply, which require retrospective application. However, given the potential impact of the change, the Board thinks that the proposed amendment to IFRS 3 and IFRS 9 should be applied prospectively. In addition, the Board thinks that the proposed amendment should not be applied before IFRS 9 (2010) because of the proposed consequential amendment to that IFRS.

Proposed amendments to IFRS 8 *Operating Segments*

Introduction

The Board proposes the following amendments to IFRS 8 *Operating Segments*.

Aggregation of operating segments

The Board proposes amending paragraph 22 to require entities to disclose those factors that are used to identify the entity's reportable segments when operating segments have been aggregated. This is to supplement the current disclosure requirements in paragraph 22(a).

Reconciliation of the total of the reportable segments' assets to the entity's assets

The Board proposes to amend paragraph 28(c) to clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed, if that amount is regularly provided to the chief operating decision maker, in line with the requirements in paragraph 23.

Proposed amendments to IFRS 8 *Operating Segments*

The Board proposes to amend IFRS 8 by amending paragraphs 22 and 28(c) and adding paragraph 36C.

The proposed amendments are marked up in the text of IFRS 8 (new text is underlined and deleted text is struck through).

The following Basis for Conclusions accompanies, but is not part of, the proposed amendments. It sets out the reasons why the Board proposes the amendments. If the amendments are approved, this basis will be included in the Basis for Conclusions on IFRS 8 *Operating Segments*, which is not part of the IFRS.

Disclosure

...

General information

22 An entity shall disclose the following general information:

(a) factors used to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated); ~~, and~~

(aa) where operating segments have been aggregated, the judgements made by management in applying the aggregation criteria in paragraph 12. In particular, a brief description of the operating segments that have been aggregated and the economic indicators that have been assessed in determining that they share similar economic characteristics (for example, profit margin spreads, sales growth rates etc); and

(b) types of products and services from which each reportable segment derives its revenues.

Measurement

...

Reconciliations

28 An entity shall provide reconciliations of all of the following:

(a) the total of the reportable segments' revenues to the entity's revenue.

(b) the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to the entity's profit or loss after those items.

(c) the total of the reportable segments' assets to the entity's assets <u>if segment assets are reported in accordance with paragraph 23</u>.

(d) the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph 23.

(e) the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

All material reconciling items shall be separately identified and described. For example, the amount of each material adjustment needed to reconcile reportable segment profit or loss to the entity's profit or loss arising from different accounting policies shall be separately identified and described.

Transition and effective date

...

<u>36C</u> <u>*Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] amended paragraphs 22 and 28(c). 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.</u>

Basis for Conclusions on the proposed amendments to IFRS 8 *Operating Segments*

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

Aggregation of operating segments

BC1 The Board received a request to consider including an additional disclosure in paragraph 22 that would require a description of the operating segments that have been aggregated and the economic indicators that have been assessed to determine that operating segments have 'similar economic characteristics' in accordance with paragraph 12. The Board observed that:

(a) paragraph 12 does not elaborate upon the meaning of 'similar economic characteristics' except to say that operating segments that share similar economic characteristics would be expected to exhibit a similar long-term financial performance. In addition, determining whether operating segments have 'similar economic characteristics' requires the use of judgement.

(b) paragraph 22(a) currently contains a requirement to disclose the factors used to identify the entity's reportable segments, including the basis of organisation, and suggests, as an example, disclosing whether operating segments have been aggregated. However, there is no explicit, or indeed apparent, requirement in paragraph 22(a) to disclose the aggregation of operating segments.

BC2 The Board noted that the proposed supplemental disclosure is complementary to the information required by paragraph 22(a). The Board thinks that including a supplemental disclosure in paragraph 22 would provide users with an understanding of how (and the reasons why) operating segments have been aggregated. Consequently, the Board proposes adding paragraph 22(aa) to complement the disclosure required in paragraph 22(a). The requirements in paragraph 22(b) remain the same and have not been modified.

Reconciliation of the total of the reportable segments' assets to the entity's assets

BC3 The Board received a request to clarify the requirement in paragraph 28(c) that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed only if that amount is regularly provided to the chief operating decision maker. This clarification would make this paragraph consistent with paragraphs 23 and 28(d).

BC4 The Board noted that in April 2009, as part of *Improvements to IFRS* (issued in April 2009), paragraph 23 was amended to clarify that a measure of total assets for each reportable segment needs to be disclosed only if that amount is regularly provided to the chief operating decision maker. The Board's decision to make this change was to avoid an unintended difference from practice in the United States under SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* (now Topic 280 *Segment Reporting* in the *FASB Accounting Standards Codification®*).

BC5 The Board observed that paragraph 28(d) clearly indicates that the reconciliation of the total of the reportable segments' liabilities to the entity's liabilities should be provided if segment liabilities are reported in accordance with paragraph 23; that is, if a measurement of total assets and total liabilities for each reportable segment is regularly provided to the chief operating decision maker. The Board noted that it was merely an unintended oversight that paragraph 28(c) was not amended at the time and in the same way as paragraph 28(d). Consequently, the Board proposes that paragraph 28(c) should also clearly indicate that the reconciliation of the total of the reportable segments' assets to the entity's assets should be reported in accordance with paragraph 23.

Proposed amendment to IFRS 13 *Fair Value Measurement*

Introduction

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

Short-term receivables and payables

IFRS 13 deleted paragraph B5.4.12 of IFRS 9 *Financial Instruments* and paragraph AG79 of IAS 39 *Financial Instruments: Recognition and Measurement*. The proposed amendment to the Basis for Conclusions of IFRS 13 aims to explain the Board's rationale for these amendments. In particular, the Board proposes to clarify that, when making those amendments to IFRS 9 and IAS 39, it did not intend to remove the ability of an entity to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial. Instead, the Board deleted those paragraphs in IFRS 9 and IAS 39 because IFRS 13 contains guidance for using present value techniques to measure fair value and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* addresses materiality in applying accounting policies.

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

The Board proposes to amend the Basis for Conclusions on IFRS 13 *Fair Value Measurement*, which is not part of the IFRS, by adding a heading and paragraph BC138A.

Short-term receivables and payables

BC138A After issuing IFRS 13, the Board was made aware that an amendment to IFRS 9 and IAS 39, which resulted in the deletion of paragraphs B5.4.12 and AG79 respectively, might be perceived as removing the ability to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial. The Board did not intend to change practice in the measurement of those short-term receivables and payables. In determining whether to retain paragraph B5.4.12 in IFRS 9 and paragraph AG79 in IAS 39, the Board concluded that the paragraphs were no longer needed for two reasons:

(a) IFRS 13 contains guidance for using present value techniques to measure fair value; and

(b) IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* addresses materiality in applying accounting policies, in effect allowing an entity to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting when the effect of not discounting is immaterial.

Proposed amendment to IAS 1 *Presentation of Financial Statements*

Introduction

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

Current/non-current classification of liabilities

The Board proposes to amend IAS 1 to clarify that a liability is classified as non-current if an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility with the same lender, on the same or similar terms.

Proposed amendment to IAS 1 *Presentation of Financial Statements*

The Board proposes to amend IAS 1 by amending paragraph 73 and adding paragraph 139L.

The proposed amendment is marked up in the text of IAS 1 (new text is underlined).

The following Basis for Conclusions accompanies, but is not part of, the proposed amendment. It sets out the reasons why the Board proposes the amendment. If the amendment is approved, this basis will be included in the Basis for Conclusions on IAS 1 *Presentation of Financial Statements*, which is not part of the IFRS.

Current liabilities

...

73 If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility with the same lender, on the same or similar terms, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

Transition and effective date

...

139L *Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] amended paragraph 73. An entity shall apply that amendment for annual periods beginning on or after 1 January 2014. An entity need not apply that amendment to comparative information. 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 IAS 1 *Presentation of Financial Statements*

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

Current/non-current classification of liabilities

BC1 The Board was asked to clarify one of the criteria for the classification of liabilities as current or non-current in paragraph 69(d), when read with paragraph 73. The Board noted that, because of the inclusion of the words 'under an existing loan facility', paragraph 73 applies to situations in which an entity has the discretion to refinance the loan with the same lender. However, the Board thinks that there is a need to clarify whether a loan that the entity has the discretion to refinance with the same lender for at least twelve months after the reporting period should be classified as non-current when different loan terms apply, as well as when the same or similar terms apply. The Board observed that there is currently diversity in practice on the classification of liabilities when different loan terms apply. According to paragraph 3.2.2 of IFRS 9 and paragraph 40 of IAS 39,[*] a substantial modification of the terms of an existing liability shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

BC2 As a result, the Board thinks that if an entity expects, and has the discretion to refinance, an existing loan on substantially different terms, then classification of the loan as non-current at the reporting date would not be consistent with the derecognition guidance for financial liabilities if this existing loan would be derecognised less than twelve months after the reporting date, and replaced by the new refinanced loan facility at that time. Consequently, the Board proposes to amend the wording of paragraph 73 to clarify that, for the paragraph to apply, and for an existing loan that is due within twelve months of the reporting date to be classified as non-current, an entity must expect, and have the discretion to refinance, the loan for at least twelve months after the reporting period with the same lender, on the same or similar terms. In the Board's view, terms are similar if the amendment of the terms would be expected to result in no substantial change to the rights and obligations of the parties to the loan facility.

* In October 2010 the Board relocated paragraph 40 of IAS 39 to paragraph 3.2.2 of IFRS 9.

BC3 The Board also considered the transitional provisions of paragraph 19 in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which require retrospective application. However, given the potential impact of the change and that the proposed clarification may cause entities to choose to renegotiate some loans, the Board thinks that the proposed amendment to IAS 1 should be applied prospectively for annual periods beginning on or after 1 January 2014.

Proposed amendment to IAS 7 *Statement of Cash Flows*

Introduction

The Board proposes the following amendment to IAS 7 *Statement of Cash Flows*.

Interest paid that is capitalised

The Board proposes to amend paragraphs 16(a) and 33 of IAS 7 *Statement of Cash Flows* and to add paragraph 33A to clarify that the classification of interest that is capitalised shall follow the classification of the underlying asset to which those payments were capitalised.

Proposed amendment to IAS 7 *Statement of Cash Flows*

The Board proposes to amend IAS 7 by amending paragraphs 16(a) and 33 and adding paragraphs 33A and 58.

The proposed amendment is marked up in the text of IAS 7 (new text is underlined). Paragraph 32 is not proposed for amendment but is included here for ease of reference.

The following Basis for Conclusions accompanies, but is not part of, the proposed amendment. It sets out the reasons why the Board proposes the amendment. If the amendment is approved, this basis will be included in the Basis for Conclusions on IAS 7 *Statement of Cash Flows*, which is not part of the IFRS.

Presentation of a statement of cash flows

...

Investing activities

16 The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities. Examples of cash flows arising from investing activities are:

(a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to <u>capitalised borrowing costs,</u> capitalised development costs and self-constructed property, plant and equipment;

(b) ...

Interest and dividends

...

32 The total amount of interest paid during a period is disclosed in the statement of cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with IAS 23 *Borrowing Costs*.

33 Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid (except for payments of interest that is capitalised, which shall be classified in accordance with paragraph 33A), and interest and dividends received, may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid (except for payments of interest that is capitalised, which shall be classified in accordance with paragraph 33A), and interest and dividends received, may be classified as financing cash flows and investing cash flows respectively, because they are either costs of obtaining financial resources or returns on investments.

33A Payments of interest that is capitalised in accordance with IAS 23 shall be classified in accordance with the classification of the underlying asset to which those payments were capitalised. For example, payments of interest that is capitalised as part of the cost of property, plant and equipment shall be classified as part of an entity's investing activities, and payments of interest that is capitalised as part of the cost of inventories shall be classified as part of an entity's operating activities.

Effective date

...

58 *Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] amended paragraphs 16(a) and 33 and added paragraph 33A. An entity shall apply that amendment 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 IAS 7 *Statement of Cash Flows*

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

Interest paid that is capitalised

BC1 The Board received a request to clarify the classification in the statement of cash flows of interest paid that is capitalised into the cost of property, plant and equipment. Paragraph 16 of IAS 7 was interpreted as classifying interest paid that has been capitalised as an investing cash flow. However, the Board was informed that this seemed to be inconsistent with paragraphs 32 and 33, which require interest paid to be classified only as an operating or a financing cash flow.

BC2 The Board observed that interest paid that is capitalised into the cost of an asset should be classified as an investing activity in accordance with paragraph 16, because it results in a recognised asset in the statement of financial position. Paragraph 32 states that interest paid that is capitalised according to IAS 23 *Borrowing Costs* should be reflected in the statement of cash flows; however, the Board noted that neither IAS 23 nor IAS 7 specifies where such capitalised interest should be classified in the statement of cash flows. Paragraph 33 allows for interest paid to be classified as part of either operating or financing activities. However, the Board noted that this paragraph does not specify whether interest paid that is capitalised as part of the cost of an asset should be classified in the same way or not.

BC3 To address this lack of guidance, the Board proposes to modify paragraphs 16(a) and 33 and proposes adding paragraph 33A to clarify that the classification of payments of interest that is capitalised shall follow the same classification as the underlying asset into which those payments were capitalised. This modification also covers the classification of payments of interest that have been capitalised into the cost of operating assets (such as inventory), which should be classified as part of an entity's cash flows from operating activities.

Proposed amendment to IAS 12 *Income Taxes*

Introduction

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

Recognition of deferred tax assets for unrealised losses

The Board proposes to amend IAS 12 to clarify that:

(a) an entity assesses whether to recognise the tax effect of a deductible temporary difference as a deferred tax asset in combination with other deferred tax assets. If tax law restricts the utilisation of tax losses so that an entity can only deduct the tax losses against income of a specified type (eg if it can deduct capital losses only against capital gains), the entity must still assess a deferred tax asset in combination with other deferred tax assets, but only with deferred tax assets of the appropriate type;

(b) taxable profit against which an entity assesses a deferred tax asset for recognition is the amount before any reversal of deductible temporary differences; and

(c) an action that results only in the reversal of existing deductible temporary differences is not a tax planning opportunity. To qualify as a tax planning opportunity, the action needs to create or increase taxable profit.

The proposed amendment reflects the tentative conclusions that the Board reached when it analysed deferred tax assets arising from unrealised losses on available-for-sale debt instruments. However, the proposed amendment is not limited in scope to those deferred tax assets, but may also be relevant for deferred tax assets resulting from other transactions and events.

Proposed amendment to IAS 12 *Income Taxes*

The Board proposes to amend IAS 12 by amending paragraphs 29 and 30, adding paragraphs 27A, 30A and 98C and adding examples after paragraphs 29 and 30A.

The proposed amendment is marked up in the text of IAS 12 (new text is underlined and deleted text is struck through). Paragraphs 24 and 27 are not proposed for amendment but are included here for ease of reference.

The following Basis for Conclusions accompanies, but is not part of, the proposed amendment. It sets out the reasons why the Board proposes the amendment. If the amendment is approved, this basis will be included in the Basis for Conclusions on IAS 12 *Income Taxes*, which is not part of the IFRS.

Deductible temporary differences

24 A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

(a) is not a business combination; and

(b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, a deferred tax asset shall be recognised in accordance with paragraph 44.

...

27 The reversal of deductible temporary differences results in deductions in determining taxable profits of future periods. However, economic benefits in the form of reductions in tax payments will flow to the entity only if it earns sufficient taxable profits against which the deductions can be offset. Therefore, an entity recognises deferred tax assets only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

<u>27A</u> <u>When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, the entity considers whether tax law restricts the sources of taxable profit against which the entity may make deductions on the reversal of that deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all its other deductible temporary differences. However, if tax law restricts the utilisation of losses to deduction against income of a specified type, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type.</u>

...

29 When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax asset is recognised to the extent that:

(a) it is probable that the entity will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward). In evaluating whether it will have sufficient taxable profit in future periods, an entity<u>:</u>

<u>(i)</u> <u>compares the deductible temporary differences with those future taxable profits before deducting the amounts resulting from the reversal of those deductible temporary differences. This comparison shows the extent to which the future taxable profits are sufficient that the entity will be able to deduct the amounts resulting from the reversal of those deductible temporary differences; and</u>

<u>(ii)</u> ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising from these deductible temporary differences will itself require future taxable profit in order to be utilised; or

(b) tax planning opportunities are available to the entity that will create taxable profit in appropriate periods.

Example

Entity A has an asset with a carrying amount of 100 and a tax base of 170. Entity A has no other deductible temporary differences, no unused tax losses and no unused tax credits. Tax law offsets all deductions against taxable income from all sources. Entity A concludes that it is probable that, after deducting the amount resulting from the reversal of the deductible temporary difference, it will file a tax return showing a taxable profit of nil and tax losses of nil in the period in which it recovers the carrying amount of the asset.

At the end of the reporting period a deductible temporary difference of 70 (170 less 100) is associated with the asset and needs to be assessed for recoverability. Entity A recognises a deferred tax asset because it is probable that it will have taxable profit of 70 relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference of 70. For assessing the recognition of the deferred tax asset, Entity A compares the deductible temporary difference of 70 with its probable future taxable profit of 70 (nil plus 70) before deducting the amount resulting from the reversal of the deductible temporary difference of 70.

30 Tax planning opportunities are actions that the entity would take in order to create or increase taxable profit ~~income~~ in a particular period before the expiry of a tax loss or tax credit carryforward. For example, in some jurisdictions, taxable profit may be created or increased by:

(a) electing to have interest income taxed on either a received or receivable basis;

(b) deferring the claim for certain deductions from taxable profit;

(c) selling, and perhaps leasing back, assets that have appreciated but for which the tax base has not been adjusted to reflect such appreciation; and

(d) selling an asset that generates non-taxable income (such as, in some jurisdictions, a government bond) in order to purchase another investment that generates taxable income.

Where tax planning opportunities advance taxable profit from a later period to an earlier period, the utilisation of a tax loss or tax credit carryforward still depends on the existence of future taxable profit from sources other than future originating temporary differences.

30A An action does not qualify as a tax planning opportunity if the action does not create or increase taxable profit. Consequently, if an action results only in the reversal of existing deductible temporary differences, that action is not a tax planning opportunity because that reversal does not create or increase taxable profit.

Example

Entity A has only two deductible temporary differences and no taxable temporary differences:

(a) Entity A purchased a debt instrument for 100 and classified it as a financial asset at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*. At the end of the reporting period, the debt instrument has a fair value of 80. Consequently, Entity A recognises an unrealised loss of 20 in profit or loss. It expects to receive all future contractual cash flows and hence expects that the loss of 20 will reverse (no later than by maturity of the debt instrument). Tax law does not allow unrealised losses on debt instruments to be deducted from taxable profit, ie the tax base remains 100 until the loss is considered realised for tax purposes. Entity A does not generally plan to hold debt instruments until their maturity but may choose to do so, for example, to avoid realising a loss.

(b) Entity A also has an item of property, plant and equipment with a carrying amount of 50 and a tax base of 80.

Tax law classifies gains and losses on debt instruments as capital gains and losses, and capital losses can only be offset against capital gains. Tax law classifies gains and losses on property, plant and equipment as ordinary gains and losses, and ordinary losses can only be offset against ordinary gains or losses.

Entity A considers it probable that its taxable profits relating to ordinary gains and losses will be more than 1,000 in each of the periods over which the carrying amount of the item of property, plant and equipment will be recovered and over which the unrealised loss on the debt instrument will reverse. Entity A has historically had no taxable profits that tax law classifies as capital gains, nor does it expect any such taxable profits in the future.

continued...

...continued

Entity A assesses separately for each deductible temporary difference whether sufficient taxable profits will be available against which that deductible temporary difference can be utilised because tax law does not offset capital losses against ordinary gains, nor does it offset ordinary losses against capital gains.

Entity A recognises a deferred tax asset arising from the deductible temporary difference of 30 associated with the item of property, plant and equipment because it is probable that it will have sufficient taxable profits in periods in which the deductible temporary difference reverses.

Recognising a deferred tax asset arising from the deductible temporary difference associated with the debt instrument would require sufficient probable taxable profits of appropriate type (ie profits that applicable tax law classifies as capital gains).

Entity A does not have sufficient taxable temporary differences of the appropriate type (ie capital gains) reversing in the same periods as the reversal of the deductible temporary difference associated with the debt instrument (or in the periods into which a tax loss arising from that reversal could be carried back or forward). In addition, it is not probable that Entity A will have sufficient future taxable profits of appropriate type (ie capital gains) against which the deductible temporary difference associated with the debt instrument can be utilised.

Thus, Entity A does not recognise a deferred tax asset arising from the deductible temporary difference of 20 associated with the debt instrument unless a tax planning opportunity is available to create sufficient taxable capital gains in the future. Holding the debt instrument until it matures does not qualify as a tax planning opportunity because that action will not create taxable profits. Instead, it only prevents a capital loss from being realised.

Effective date

...

98C *Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] amended paragraphs 29 and 30, added paragraph 27A and 30A and added examples after paragraphs 29 and 30A. An entity shall apply that amendment 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 IAS 12 *Income Taxes*

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

Recognition of deferred tax assets for unrealised losses

BC1 The IFRS Interpretations Committee (the Committee) was asked to provide guidance on how an entity determines, in accordance with IAS 12 *Income Taxes*, whether to recognise a deferred tax asset when the entity:

(a) has a deductible temporary difference relating to an unrealised loss on debt instruments that are classified as available-for-sale financial assets in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and measured at fair value;

(b) has the ability and intention to hold the instruments until the loss reverses (which may be at their maturity); and

(c) has insufficient taxable temporary differences and no other probable taxable profits against which the entity can utilise that deductible temporary difference.

BC2 The Committee reported to the Board that practice differed because of divergent views on the following questions:

(a) Does an entity assess whether a deferred tax asset is recognised for each deductible temporary difference separately, or in combination with other deductible temporary differences (see paragraphs BC3–BC5)? This question is particularly relevant where tax law distinguishes capital gain and loss from other taxable gains and losses and capital losses can only be offset against capital gains.

(b) If an entity has the ability and intention to hold an available-for-sale debt instrument until an unrealised loss reverses, does that create a source of taxable profits, for example because it is a tax planning opportunity or akin to a tax planning opportunity (see paragraphs BC6–BC9)?

(c) When an entity assesses whether it can utilise a deductible temporary difference against probable future taxable profits, do those probable future taxable profits include the effects of reversing deductible temporary differences (see paragraphs BC10–BC11)?

Combined versus separate assessment

BC3 The Board considered the guidance in IAS 12 on the recognition of deferred tax assets. Paragraph 24 requires that a deferred tax asset is recognised only to the extent of probable future taxable profit against which the deductible temporary difference can be utilised. Paragraph 27 elaborates on these requirements and explains that:

(a) the deductible temporary difference is utilised when its reversal results in deductions that are offset against taxable profits of future periods; and

(b) economic benefits in the form of reductions in tax payments will flow to the entity only if it earns sufficient taxable profits against which the deductions are offset.

BC4 The Board noted that:

(a) tax law determines which deductions are offset in determining taxable profits, because paragraph 5 defines taxable profit as the profit of a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable; and

(b) no deferred tax asset is recognised if the reversal of the deductible temporary difference will not lead to reductions in tax payments. To achieve this outcome, if tax law offsets different types of expense against the same type of taxable income, an entity will need to assess in combination all temporary differences that, when they reverse, will give rise to deductions against the same type of taxable income. Only such a combined assessment determines whether taxable profits are sufficient to utilise deductible temporary differences.

BC5 Consequently, if tax law, as is often the case, offsets a deduction against taxable income on an entity basis, without segregating deductions from different sources, an entity carries out a combined assessment of all its deferred tax assets relating to the same taxation authority and same taxable entity. However, if tax law offsets specific types of loss (eg capital losses) only against the same types of income (eg capital gains), an entity assesses a deferred tax asset in combination with other deferred tax assets of the same type, but separately from all other deferred tax assets. The Board proposes to add paragraph 27A and an example after paragraph 30A to clarify this.

Tax planning opportunities

BC6 The Board noted that paragraphs 28 and 29 identify three sources of taxable profits against which an entity can utilise deductible temporary differences. They are:

(a) future reversal of existing taxable temporary differences;

(b) future taxable profits; and

(c) tax planning opportunities.

A deferred tax asset arising from a deductible temporary difference is recognised only to the extent that it is probable that at least one of these sources of taxable profits is available. Otherwise, no deferred tax asset is recognised.

BC7 The Board also noted that an action that results in a reversal of existing deductible temporary differences without creating or increasing taxable profit in the future is not a tax planning opportunity, as described in paragraph 30. The Board proposes to add paragraph 30A and an example after paragraph 30A to clarify this.

BC8 However, some think that the action of holding available-for-sale debt instruments until the unrealised loss reverses is akin to a tax planning opportunity and they believe that this justifies recognising the deferred tax asset by analogy to paragraph 29(b). They argue that if an entity can deduct unrealised losses for tax purposes, it could subsequently create taxable profits by holding available-for-sale debt instruments until the losses reverse. Consequently, they think that the ability to hold those instruments until the losses reverse is a tax planning opportunity, as described in paragraph 30, if the entity has already deducted unrealised losses on those instruments for tax purposes. By analogy, if an entity cannot deduct unrealised losses for tax purposes, they argue that the entity must be in an equivalent deferred tax position. They reach this conclusion because there is an inherent assumption in IAS 12 that an entity will recover the carrying amount of an asset. In their view, applying this assumption leads to a notional tax loss, and holding the asset until the loss reverses should therefore be considered an action that creates a notional taxable profit against which the notional tax loss can be offset.

BC9 However, the Board noted that paragraphs 29 and 30 do not permit an entity to recognise a deferred tax asset based on an action that does not qualify as a tax planning opportunity even if such an action is akin to a tax planning opportunity. Moreover, such action does not give rise to a source of taxable profits (see paragraph BC6) and so the availability of such an action does not permit an entity to recognise a deferred tax asset. The Board proposes to add an example after paragraph 30A to clarify this.

Deductible temporary differences

BC10 During its work on the issue, the Committee observed uncertainty about how to define the cases when probable future taxable profits are insufficient for the recognition of a deferred tax asset. The uncertainty related to whether a deductible temporary difference should be compared with probable future taxable profits before the reversal of deductible temporary differences, or after their reversal.

BC11 The Board noted that a deductible temporary difference is utilised by deduction against the amount of taxable profit determined before deducting the amounts resulting from the reversal of the deductible temporary difference. If not, the deduction would be counted twice. The Board proposes to amend paragraph 29(a) and to add an example after paragraph 29 to clarify this.

Proposed amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*

Introduction

The Board proposes the following amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*.

Revaluation method—proportionate restatement of accumulated depreciation

The Board proposes to clarify the requirements for the revaluation method in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* to address concerns about the computation of the accumulated depreciation at the date of the revaluation. The proposed changes are that:

(a) the determination of the accumulated depreciation does not depend on the selection of the valuation technique; and

(b) the accumulated depreciation is computed as the difference between the gross and the net carrying amounts. Consequently, when the residual value, the useful life or the depreciation method has been re-estimated before a revaluation, restatement of the accumulated depreciation is not proportionate to the change in the gross carrying amount of the asset.

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

The Board proposes to amend IAS 16 by amending paragraph 35 and adding paragraph 81G.

The proposed amendment is marked up in the text of IAS 16 (new text is underlined and deleted text is struck through).

The following Basis for Conclusions accompanies, but is not part of, the proposed amendment. It sets out the reasons why the Board proposes the amendment. If the amendment is approved, this basis will be included in the Basis for Conclusions on IAS 16 *Property, Plant and Equipment*, which is not part of the IFRS.

Measurement after recognition

...

Revaluation model

...

35 When an item of property, plant and equipment is revalued, ~~any~~ the gross carrying amount and the accumulated depreciation at the date of the revaluation ~~is~~ are treated in one of the following ways:

(a) the gross carrying amount is restated ~~proportionately~~ in a manner consistent with the revaluation of ~~change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued~~ the carrying amount. The accumulated depreciation is the difference between the gross and the net carrying amounts. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the net carrying amount. ~~This method is often used when an asset is revalued by means of applying an index to determine its replacement depreciated cost (see IFRS 13).~~

(b) the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. ~~This method is often used for buildings.~~

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 39 and 40.

Effective date

...

81G *Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] amended paragraph 35. An entity shall apply that amendment 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 IAS 16 *Property, Plant and Equipment*

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

Revaluation method—proportionate restatement of accumulated depreciation when an item of property, plant and equipment is revalued

BC1 The IFRS Interpretations Committee reported to the Board that practice differed in the computing of accumulated depreciation for an item of property, plant and equipment that is measured using the revaluation method in cases where the residual value, the useful life or the depreciation method has been re-estimated before a revaluation.

BC2 Paragraph 35(a) currently requires that, in instances where the gross carrying amount is revalued, the revalued accumulated depreciation results from applying the same proportionate factor as for the change in the gross carrying amount to the accumulated depreciation before revaluation.

BC3 Applying the same proportionate factor to restate accumulated depreciation as for the change in the gross carrying amount causes problems if the residual value, the useful life or the depreciation method has been re-estimated before the revaluation. For instance, the residual value of an item of property, plant and equipment is revised three years after its acquisition, but no revaluation occurs in that same period for the net carrying amount of the item. Instead, a revaluation of the net carrying amount of the item occurs five years after the acquisition.

BC4 In such cases, divergent views exist as to how to compute the accumulated depreciation when the item of property, plant and equipment is revalued:

(a) Some think that the restatement of the accumulated depreciation is not always proportionate to the change in the gross carrying amount and paragraph 35(a) should be amended accordingly.

(b) Others are of the opinion that the accumulated depreciation and the gross carrying amount should always be restated proportionately when applying paragraph 35(a). The difference between:

(i) the amount required for a proportionate restatement of the depreciation; and

(ii) the actual restatement of the depreciation required for the gross carrying amount to result in a carrying value equal to the revalued amount

should be treated as an accounting error in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

BC5 The Board considered the definition of 'carrying amount' in paragraph 6:

> *Carrying amount* is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment loss.

The Board noted that the definition implies that the accumulated depreciation is first and foremost computed as the difference between the gross carrying amount and the net carrying amount of a non-financial asset.

BC6 The Board agrees with the proponents of the view presented in paragraph BC4(a) that the restatement of the accumulated depreciation is not always proportionate to the change in the gross carrying amount. In particular, when the revalued amounts for the gross and the net carrying amounts both reflect observable data, it is demonstrated that accumulated depreciation cannot be proportionately restated to the gross carrying amount after revision of the residual value, the useful life or the depreciation method before the revaluation. In that respect, the Board thinks that the requirements in paragraph 35(a) may be perceived as being inconsistent with the definition of 'carrying amount'.

BC7 In addition, the Board noted that the second sentence in paragraph 35(a) reinforces that inconsistency in that it states that proportional restatement is often used when an asset is revalued by means of applying an index to determine its replacement cost. It reinforces the inconsistency because the determination of the accumulated depreciation does not depend on the selection of the valuation technique used for the revaluation under the revaluation model for non-financial long-term assets in IFRSs.

BC8 Consequently, the Board proposes to:

(a) amend paragraph 35(a) to state that the accumulated amortisation is calculated as the difference between the gross and the net carrying amount after restating the gross carrying amount in a manner consistent with the net carrying amount; and

(b) delete the references to valuation methods in paragraph 35(a) and (b).

Proposed amendment to IAS 38 *Intangible Assets*

The Board proposes to amend IAS 38 by amending paragraph 80 and adding paragraph 130H.

The proposed amendment is marked up in the text of IAS 38 (new text is underlined and deleted text is struck through).

The following Basis for Conclusions accompanies, but is not part of, the proposed amendment. It sets out the reasons why the Board proposes the amendment. If the amendment is approved, this basis will be included in the Basis for Conclusions on IAS 38 *Intangible Assets*, which is not part of the IFRS.

Measurement after recognition

...

Revaluation model

...

80 If an intangible asset is revalued, ~~any~~ an entity shall treat the gross carrying amount and the accumulated amortisation at the date of the revaluation ~~is either~~ in one of the following ways:

(a) the gross carrying amount is restated ~~proportionately~~ in a manner consistent with the ~~change in~~ revaluation of ~~the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued~~ the carrying amount~~; or~~. The accumulated amortisation is the difference between the gross and the net carrying amounts. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the net carrying amount.

(b) the accumulated amortisation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Transitional provisions and effective date

...

130H *Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] amended paragraph 80. An entity shall apply that amendment 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 IAS 38 *Intangible Assets*

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

Revaluation method—proportionate restatement of accumulated depreciation when an intangible asset is revalued

BC1 Paragraph 80 contains the same requirements as paragraph 35 of IAS 16 for the restatement of the accumulated depreciation when an intangible item is revalued.

BC2 Consequently, the Board proposes that the same amendment as for paragraph 35 of IAS 16 should be made to paragraph 80.

Proposed amendment to IAS 24 *Related Party Disclosures*

Introduction

The Board proposes the following amendment to IAS 24 *Related Party Disclosures*.

Key management personnel

The Board proposes to clarify the identification and disclosure requirements for related party transactions that take place when key management personnel services are provided by a management entity that is not otherwise a related party of the reporting entity. The proposed changes are:

(a) the definition of a 'related party' is extended to include management entities;

(b) the disclosure requirements of paragraph 18 are extended to require the separate disclosure of transactions for the provisions of key management personnel services; and

(c) the key management personnel compensation that is provided by a management entity to its own employees is excluded from the disclosure requirements of paragraph 17 to prevent duplication.

Proposed amendment to IAS 24 *Related Party Disclosures*

The Board proposes to amend IAS 24 by amending paragraph 9 and adding paragraphs 17A, 18A and 28B.

The proposed amendment is marked up in the text of IAS 24 (new text is underlined and deleted text is struck through). Paragraph 17 is not proposed for amendment but is included here for ease of reference.

The following Basis for Conclusions accompanies, but is not part of, the proposed amendment. It sets out the reasons why the Board proposes the amendment. If the amendment is approved, this basis will be included in the Basis for Conclusions on IAS 24 *Related Party Disclosures*, which is not part of the IFRS.

Definitions

9 **The following terms are used in this Standard with the meanings specified:**

A *related party* is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(a) ...

(b) **An entity is related to a reporting entity if any of the following conditions applies:**

(i) ...

(vii) **A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).**

<u>**(viii)**</u> <u>**The entity, or a member of its group, provides key management personnel services to the reporting entity.**</u>

Disclosures

All entities

...

17 **An entity shall disclose key management personnel compensation in total and for each of the following categories:**

(a) **short-term employee benefits;**

(b) post-employment benefits;

(c) other long-term benefits;

(d) termination benefits; and

(e) share-based payment.

<u>**17A**</u> <u>**If an entity hires key management personnel services from another entity, 'the management entity', then the entity is not required to apply the requirements in paragraph 17 to compensation paid or payable by the management entity to the management entity's employees or directors.**</u>

18 **...**

<u>**18A**</u> <u>**Amounts recognised as an expense by the entity for the provision of key management personnel services that are provided by a separate management entity should be separately disclosed.**</u>

Effective date and transition

...

<u>28B</u> <u>*Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] amended paragraph 9 and added paragraphs 17A and 18A. An entity shall apply that amendment 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.</u>

Basis for Conclusions on the proposed amendment to IAS 24 *Related Party Disclosures*

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

Key management personnel

BC1 The Board was asked to address the disclosure of related party transactions that arise when a management entity provides key management personnel services to a reporting entity. The Board understands that divergence exists, because some reporting entities would disclose the compensation paid by the management entity to those employees or directors of the management entity that act as key management personnel of the reporting entity. Other reporting entities would disclose the service fee that is paid or payable to the management entity, which is recognised as an expense by the reporting entity.

BC2 The Board noted that IAS 24 is unclear as to what information to disclose for key management personnel when those persons are not employees of the reporting entity. To address the diversity in disclosures that has arisen from IAS 24 being unclear, the Board proposes to amend the definition of a 'related party'. The amendment would clarify that a management entity that provides key management services to a reporting entity is deemed to be a related party of the reporting entity. As a result of that change, the reporting entity would be required to disclose the amount recognised as an expense for the service fee paid or payable to the management entity that employs, or has as directors, the persons that provide the key management services. The reporting entity would be required to disclose other transactions with the management entity, for example loans, under the existing disclosure requirements of IAS 24 with respect to related parties.

BC3 The Board was informed of concerns that it is impracticable to access the detailed information that is required in paragraph 17 when compensation is paid to a separate management entity as fees. The Board therefore proposes to provide relief so that the reporting entity would not be required to disclose compensation to key management personnel paid through another entity. Instead, amounts recognised as an expense in respect of key management personnel compensation or key management personnel services, paid or payable to another entity, would be separately disclosed in accordance with paragraph 18A.

Proposed amendment to IAS 36 *Impairment of Assets*

Introduction

The Board proposes the following amendment to IAS 36 *Impairment of Assets*.

Harmonisation of disclosures for value in use and fair value less costs of disposal

The Board proposes to clarify that the disclosure requirements in IAS 36 that are applicable to value in use are also applicable to fair value less costs of disposal when there has been a material impairment loss or impairment reversal in the period.

Proposed amendment to IAS 36 *Impairment of Assets*

The Board proposes to amend IAS 36 by amending paragraph 130(f) and adding paragraph 140J.

The proposed amendment is marked up in the text of IAS 36 (new text is underlined).

The following Basis for Conclusions accompanies, but is not part of, the proposed amendment. It sets out the reasons why the Board proposes the amendment. If the amendment is approved, this basis will be included in the Basis for Conclusions on IAS 36 *Impairment of Assets*, which is not part of the IFRS.

Disclosure

...

130 **An entity shall disclose the following for each material impairment loss recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit:**

...

(f) **if recoverable amount is fair value less costs of disposal, the basis used to measure fair value less costs of disposal (such as whether fair value was measured by reference to a quoted price in an active market for an identical asset). <u>If fair value less costs of disposal is measured using a present value technique, an entity shall disclose the discount rate(s) used in the current measurement and previous measurement (if any). An entity is not required to provide the disclosures required by IFRS 13.</u>**

Transitional provisions and effective date

...

<u>140J</u> <u>*Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] amended paragraph 130(f). An entity shall apply that amendment 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. The amendment shall be applied prospectively as of the beginning of the annual period in which it is initially applied.</u>

Basis for Conclusions on the proposed amendment to IAS 36 *Impairment of Assets*

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

Harmonisation of disclosures for value in use and fair value less costs of disposal

BC1 *Improvements to IFRSs* (issued in May 2008) amended paragraph 134(e). This amendment addressed an inconsistency in the disclosure requirements for circumstances in which discounted cash flows were used to determine recoverable amounts for cash-generating units ('CGU's') that contain goodwill or intangible assets with indefinite useful lives. Specifically, the amendment brought the disclosures required in respect of fair value less costs to sell ('FVLCTS') in line with those required for value in use ('VIU') in circumstances where discounted cash flows are used to calculate FVLCTS. The same information is now required about the period over which the cash flows have been projected, the growth rate used to extrapolate the projections and the discount rate(s) applied to those projections, when discounted cash flows are used to calculate fair value less costs of disposal ('FVLCOD')* (paragraph 134(e)(iii)–(v)). This is consistent with the disclosures that are required for the VIU calculation.

BC2 The Board noted, however, a similar issue with respect to paragraph 130, which provides the disclosure requirements when a material impairment has been recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit. The disclosures that IAS 36 requires in paragraph 130(f), when VIU is used to determine recoverable amount, differ from those disclosures required when FVLCOD is used. These differing requirements appear to be inconsistent when a similar valuation methodology (discounted cash flows) has been used. Consistently with the rationale for the May 2008 amendment discussed above, the Board proposes to require the same disclosures for FVLCOD and VIU when discounted cash flows are used to estimate the recoverable amount.

* In developing IFRS 13 *Fair Value Measurement*, issued in May 2011, the Board changed the definition of 'fair value less costs to sell'. As a consequence all reference to 'fair value less costs to sell' in IAS 36 were replaced with 'fair value less costs of disposal'.

