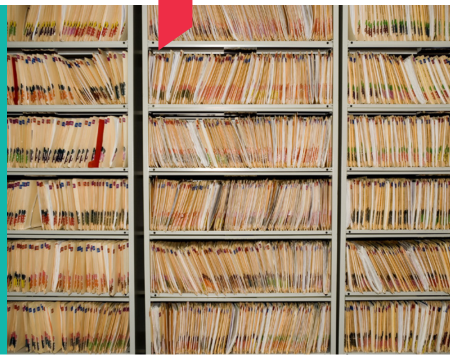
ANNUAL IMPROVEMENTS TO IFRSs (2011 – 2013 CYCLE)

INTERNATIONAL FINANCIAL REPORTING BULLETIN 2013/29



Summary

On 12 December 2013 the International Accounting Standards Board (IASB) published *Annual Improvements to IFRSs 2011 – 2013 Cycle* (the improvements) which sets out amendments to four IFRSs.

Standard		Amendment(s) relate to:
IFRS 1 ***First-time Adoption of International Financial Reporting Standards*** *(Basis for Conclusions)*	–	Which IFRSs an entity is able to apply when preparing its IFRS financial statements in accordance with IFRS 1.
IFRS 3 ***Business Combinations*** *(Prospective application)*	–	The scope of IFRS 3 in respect of the formation of a joint arrangement in the financial statements of the joint arrangement itself.
IFRS 13 ***Fair Value Measurement*** *(Prospective application)*	–	The scope of the portfolio exemption (IFRS 13.52) in respect of items that have offsetting positions in market and/or counterparty credit risk that are recognised and measured in accordance with IAS 39/IFRS 9.
IAS 40 ***Investment Property*** *(Prospective application)*	–	Determining whether the acquisition of an investment property is a business combination that should be accounted for in accordance with IFRS 3, with specific reference made to owner-occupied property.

The above annual improvements have an effective date of 1 July 2014, with early application permitted.

(Note: the amendment to IFRS 1 is to the *Basis for Conclusions* and therefore has no specific effective date.)

STATUS
Final

EFFECTIVE DATE
1 July 2014, with earlier application permitted

ACCOUNTING IMPACT
May be significant.

Amendments

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

Issue: **Meaning of effective IFRSs**

IFRS 1.7 requires a first-time adopter of IFRS to use accounting policies that comply with 'each IFRS effective at the end of an entity's first IFRS reporting period'. The amendment to the *Basis for Conclusions* clarifies that an entity has an option to use either:

- The IFRSs that are currently mandatory, or
- One or more IFRSs that are not yet mandatory, if those IFRSs permit early application.

An entity preparing its IFRS financial statements in accordance with IFRS 1 that chooses to early adopt a new IFRS that is not yet mandatory will be required to apply that new IFRS in all periods presented in those financial statements, unless that new IFRS provides an exemption or an exception that permits or requires otherwise.

IFRS 3 *Business Combinations*

Issue**: Scope exceptions for joint ventures**

IFRS 3 currently includes a scope exemption for the formation of a 'joint venture'. This term had a general meaning under IAS 31 *Interests in Joint Ventures* and covered joint ventures that were classified as:

- Jointly controlled entities
- Jointly controlled operations, and
- Jointly controlled assets.

The issue arises as the wording for the scope exemption was not amended when IAS 31 was replaced by IFRS 11 *Joint Arrangements* (which supersedes IAS 31 for periods beginning on or after 1 January 2013), which classifies joint arrangements into either:

- Joint ventures
- Joint operations.

There was also uncertainty over whether the exemption applied only to the accounting by the joint arrangement in its own financial statements or to the accounting by the parties to the joint arrangement for their interest in the joint arrangement.

The amendments to IFRS 3 clarify that:

- The formation of all types of joint arrangements as defined in IFRS 11 (i.e. joint ventures and joint operations) are excluded from the scope of IFRS 3
- The scope exception only applies to the accounting by the joint arrangement in its own financial statements and not to the accounting by the parties to the joint arrangement for their interests in the joint arrangement.

IFRS 13 *Fair Value Measurement*

Issue: **Scope of paragraph 52 (portfolio exemption)**

IFRS 13.52 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. This is referred to as the portfolio exception.

Previously under IFRS 13 it was not clear whether the portfolio exception included all contracts that were within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments* if this has been adopted early) even if they did not meet the definition of financial assets and financial liabilities in IAS 32 *Financial Instruments: Presentation* (e.g. 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).

The amendment to IFRS 13.52 clarifies that the portfolio exception applies to all contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments* if this has been adopted early), regardless of whether they meet the definition of financial assets or financial liabilities in IAS 32 *Financial Instruments: Presentation*.

IAS 40 *Investment Property*

Issue: **Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying the acquisition of investment property or owner-occupied property**

The amendment notes that determining whether the acquisition of an investment property is a business combination requires judgement of the specific requirements of IFRS 3, independently from the requirements of IAS 40, including whether the investment property is owner occupied. IAS 40.14A notes that:

- 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
- The judgement of whether the acquisition of investment property is a business combination is based on the guidance in IFRS 3, and not on IAS 40.7–15
- The judgement needed to distinguish investment property from owner-occupied property is based on IAS0 40.7–15 and not the judgement of whether or not a transaction is a business combination.

What should entities do in response to the amendments?

Entities should consider whether any of the new amendments would have a significant effect on their financial statements. These include entities that:

- May in the future be preparing IFRS financial statements in accordance with IFRS 1
- Are themselves joint arrangements
- Apply the portfolio exemption in accordance with IFRS 13.52 (i.e. to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk)
- Acquire investment property.

Effective date

The above annual improvements have an effective date of 1 July 2014, with early application permitted.

(Note: the amendment to IFRS 1 is to the *Basis for Conclusions* and therefore has no specific effective date.)

www.bdointernational.com

1312-10