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IFRS® Standards

Annual Improvements to IFRS® Standards 2015–2017 Cycle

IASB®

IFRS®

Annual Improvements to IFRS® Standards 2015–2017 Cycle

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Introduction

This document sets out amendments made by the International Accounting Standards Board (Board). The amendments are part of the Annual Improvements to IFRS® Standards.

The Annual Improvements provide a mechanism for dealing efficiently with a collection of minor amendments to IFRS Standards.

The amendments to IAS 12 *Income Taxes* resulted in amendments to the Basis for Conclusions on IAS 32 *Financial Instruments: Presentation*. These amendments are set out in the same section of this document as the amendments to IAS 12.

An entity shall apply each of the amendments for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted.

The Standards amended

The following table shows the Standards amended and the subject of the amendments.

Standard	**Subject of amendment**
IFRS 3 *Business Combinations*	Previously held interest in a joint operation
IFRS 11 *Joint Arrangements*	
IAS 12 *Income Taxes*	Income tax consequences of payments on financial instruments classified as equity
IAS 23 *Borrowing Costs*	Borrowing costs eligible for capitalisation

Approval by the Board of *Annual Improvements to IFRS Standards 2015–2017 Cycle* issued in December 2017

Annual Improvements to IFRS Standards 2015–2017 Cycle was approved for issue by 11 of 14 members of the International Accounting Standards Board (Board). Messrs Anderson and Lu and Ms Tarca abstained in view of their recent appointments to the Board.

Hans Hoogervorst	Chairman
Suzanne Lloyd	Vice-Chair
Nick Anderson	
Martin Edelmann	
Françoise Flores	
Amaro Luiz de Oliveira Gomes	
Gary Kabureck	
Jianqiao Lu	
Takatsugu Ochi	
Darrel Scott	
Thomas Scott	
Chungwoo Suh	
Ann Tarca	
Mary Tokar	

Amendments to IFRS 3 *Business Combinations*

Paragraphs 42A and 64O are added.

Additional guidance for applying the acquisition method to particular types of business combinations

A business combination achieved in stages

...

42A When a party to a joint arrangement (as defined in IFRS 11 *Joint Arrangements*) obtains control of a business that is a joint operation (as defined in IFRS 11), and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. The acquirer shall therefore apply the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation in the manner described in paragraph 42. In doing so, the acquirer shall remeasure its entire previously held interest in the joint operation.

Effective date and transition

Effective date

...

64O *Annual Improvements to IFRS Standards 2015–2017 Cycle*, issued in December 2017, added paragraph 42A. An entity shall apply those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

Amendments to the Basis for Conclusions on IFRS 3 *Business Combinations*

After paragraph BC389, a new heading and paragraphs BC389A–BC389C are added. After paragraph BC434E, a new heading and paragraph BC434F are added.

Previously held interest in a joint operation (amendments issued in December 2017)

BC389A The IASB was informed that entities, on obtaining control of a business that is a joint operation, accounted for their previously held interest in the joint operation differently. In particular, there were different views on whether the term 'equity interest' in paragraphs 41–42 of IFRS 3 applied to such a previously held interest.

BC389B The IASB concluded that the transaction described in paragraph BC389A is a business combination achieved in stages. This transaction results in a significant change in the nature of, and economic circumstances surrounding, any interest in the joint operation; remeasuring the previously held interest at fair value is therefore warranted. Accordingly, the IASB added paragraph 42A to clarify that, when obtaining control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at its acquisition-date fair value.

BC389C Some respondents to the exposure draft of the proposed amendments to IFRS 3 suggested that the IASB clarify whether an acquirer would be required to remeasure its entire previously held interest in a joint operation or only the assets and liabilities relating to the joint operation it had recognised before obtaining control. In response, the IASB clarified that an entity remeasures its entire previously held interest in the joint operation. IFRS 3 views a business combination achieved in stages as a transaction in which an acquirer exchanges its status as an owner of a non-controlling interest in a business for a controlling interest in all of the underlying assets and liabilities of that business. Accordingly, when an acquirer obtains control of a business that is a joint operation, it effectively (a) derecognises its previously held interest (ie non-controlling interest) in the joint operation, and (b) recognises a controlling interest in all of the assets and liabilities of the former joint operation. The IASB observed that remeasuring the entire previously held interest would result in an entity recognising the same gain or loss on remeasurement that it would have recognised had it otherwise disposed of its previously held interest in the joint operation in an exchange transaction.

Previously held interest in a joint operation (amendments issued in December 2017)

BC434F The IASB decided that an entity applies paragraph 42A to business combinations occurring on or after the date it first applies the amendments. Applying the amendments to business combinations occurring before that date may have required the use of hindsight to remeasure the entity's previously held interest.

Amendments to IFRS 11 *Joint Arrangements*

Paragraph B33CA and paragraph C1AB are added.

Accounting for acquisitions of interests in joint operations

...

B33CA A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. In such cases, previously held interests in the joint operation are not remeasured.

...

Effective date

...

C1AB *Annual Improvements to IFRS Standards 2015–2017 Cycle*, issued in December 2017, added paragraph B33CA. An entity shall apply those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

Amendments to the Basis for Conclusions on IFRS 11 *Joint Arrangements*

After paragraph BC45N, a new heading and paragraphs BC45O–BC45Q are added. After paragraph BC69C, a new heading and paragraph BC69D are added.

Previously held interest in a joint operation (amendments issued in December 2017)

BC45O The Board was informed that entities, on obtaining joint control of a business that is a joint operation, accounted for their previously held interest in the joint operation differently. In particular, there were different views on whether an entity applied the principles for accounting for a business combination achieved in stages to its previously held interest when it obtained joint control.

BC45P The Board observed that although such a transaction changes the nature of an entity's interest in a joint operation, it does not result in a change in the group boundaries. In this respect, the transaction is similar to an investment in an associate becoming an investment in a joint venture and vice versa. The Board noted that paragraph 24 of IAS 28 prohibits an entity from remeasuring its previously held interest in those circumstances. The Board also observed that remeasuring a previously held interest in a joint operation could conflict with the requirement in IFRS 11 for an entity to account for its assets and liabilities relating to its interest in a joint operation applying the applicable IFRSs.

BC45Q Consequently, the Board added paragraph B33CA to clarify that when an entity obtains joint control of a business that is a joint operation, it does not remeasure its previously held interests.

...

Previously held interest in a joint operation (amendments issued in December 2017)

BC69D The Board decided that an entity applies paragraph B33CA to transactions in which joint control is obtained on or after the date it first applies the amendments. The Board concluded that the benefits of applying the amendments retrospectively were unlikely to exceed the costs of doing so because:

(a) the nature of such transactions varies and restatement might not provide useful trend information to users of financial statements; and

(b) applying a retrospective approach could result in significant costs for some entities because doing so could require an entity to analyse earlier acquisitions of interests in joint operations.

Amendments to IAS 12 *Income Taxes*

Paragraphs 57A and 98I are added, the heading of the example below paragraph 52B is amended and paragraph 52B is deleted. New text is underlined and deleted text is struck through.

Measurement

...

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

Example illustrating paragraphs 52A and ~~52B~~57A
...

...

Recognition of current and deferred tax

...

57A An entity shall recognise the income tax consequences of dividends as defined in IFRS 9 when it recognises a liability to pay a dividend. The income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity shall recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

Effective date

...

98I *Annual Improvements to IFRS Standards 2015–2017 Cycle*, issued in December 2017, added paragraph 57A and deleted paragraph 52B. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact. When an entity first applies those amendments, it shall apply them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

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

The following footnote is added to paragraphs BC33A and BC33C.

Annual Improvements to IFRS Standards 2015–2017 Cycle, issued in December 2017, deleted paragraph 52B of IAS 12. The requirements previously specified in that paragraph were moved to paragraph 57A of IAS 12.

Amendments to the Basis for Conclusions on IAS 12 *Income Taxes*

After paragraph BC62, paragraphs BC63–BC70 and their related headings are added.

Income tax consequences of payments on financial instruments classified as equity (amendments issued in December 2017)

BC63 The Board was asked about the income tax consequences of payments on financial instruments classified as equity; should an entity recognise them in profit or loss, or in equity? In particular, the Board was asked whether the requirements in paragraph 57A (paragraph 52B before the amendments were made) apply only in the circumstances described in paragraph 52A (for example, when there are different tax rates for distributed and undistributed profits), or whether those requirements apply as long as payments on financial instruments classified as equity are distributions of profit.

BC64 The Board observed that:

(a) paragraph 57A describes how an entity accounts for income tax consequences of dividends paid. Dividends are defined in IFRS 9 as 'distributions of profits to holders of equity instruments in proportion to their holdings of a particular class of capital'.

(b) paragraph 57A first requires an entity to link the income tax consequences of dividends to past transactions or events that generated distributable profits. An entity then applies the requirements in paragraph 58 to determine where to recognise those income tax consequences. Applying paragraph 57A, the entity recognises the income tax consequences of dividends according to where it has recognised the past transactions or events that generated distributable profits.

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

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

BC65 Accordingly, the Board concluded that an entity should recognise all income tax consequences of dividends applying the requirements in paragraph 57A. However, the Board also observed that, before those requirements were amended, the requirements in paragraph 57A could be misread to imply that paragraph 57A applied only in the circumstances described in paragraph 52A.

BC66 Consequently, the Board clarified that the requirements in paragraph 57A apply to all income tax consequences of dividends.

BC67 The Board noted that the amendments do not suggest that an entity applies paragraph 57A to the income tax consequences of all payments on financial instruments classified as equity. Rather, paragraph 57A applies only when an entity determines payments on such instruments are distributions of profits (ie dividends). An entity may need to apply judgement in making this determination.

BC68 The Board considered whether to include requirements on how to determine if payments on financial instruments classified as equity are distributions of profits. It decided not to do so for the following reasons:

(a) including indicators or requirements that distinguish distributions of profits from other distributions goes beyond the scope of the amendments to IAS 12. Any attempt by the Board to define or describe distributions of profits could affect other IFRS Standards and IFRIC Interpretations, and risks unintended consequences.

(b) the amendments do not change what is and is not a distribution of profits. They simply clarify that the requirements in paragraph 57A apply to all income tax consequences of dividends.

BC69 The Board concluded that finalising the amendments without adding the possible requirements mentioned in paragraph BC68 would nonetheless be beneficial to preparers and users of financial statements. In particular, the amendments would eliminate the potential for inconsistent accounting that resulted from the ambiguity of the scope of the requirements in paragraph 57A that existed before those requirements were amended.

Transition

BC70 The Board decided that an entity applies the amendments to income tax consequences of dividends recognised on or after the beginning of the earliest comparative period when it first applies the amendments. This is because application of the amendments before that date could affect only components of equity as at the beginning of the earliest comparative period. The Board concluded that entities would have sufficient information to apply the amendments to the income tax consequences of dividends that occur in comparative reporting periods and that applying the amendments in this way will enhance comparability of reporting periods.

Amendments to IAS 23 *Borrowing Costs*

Paragraph 14 is amended, and paragraphs 28A and 29D are added. Deleted text is struck through and new text is underlined.

Recognition

...

Borrowing costs eligible for capitalisation

...

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

...

Transitional provisions

...

28A *Annual Improvements to IFRS Standards 2015–2017 Cycle*, issued in December 2017, amended paragraph 14. An entity shall apply those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

Effective date

...

29D *Annual Improvements to IFRS Standards 2015–2017 Cycle*, issued in December 2017, amended paragraph 14 and added paragraph 28A. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

Amendments to the Basis for Conclusions on IAS 23 *Borrowing Costs*

After paragraph BC14, a new heading and paragraphs BC14A–BC14E are added. After paragraph BC18, a new heading and paragraph BC18A are added.

Borrowing costs eligible for capitalisation (amendments issued in December 2017)

BC14A When determining the funds that an entity borrows generally, paragraph 14 of IAS 23 required an entity to exclude borrowings made specifically for the purpose of obtaining a qualifying asset. The Board was asked whether an entity includes borrowings made specifically to obtain a qualifying asset in general borrowings when that qualifying asset is ready for its intended use or sale.

BC14B The Board concluded that the reference to 'borrowings made specifically for the purpose of obtaining a qualifying asset' in paragraph 14 should not apply to a borrowing originally made specifically to obtain a qualifying asset if that qualifying asset is now ready for its intended use or sale.

BC14C The Board observed that paragraph 8 requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Paragraph 10 states that borrowing costs are directly attributable to a qualifying asset if those borrowing costs would have been avoided had the expenditure on the qualifying asset not been made. In other words, an entity could have repaid that borrowing if the expenditure on the qualifying asset had not been made. Accordingly, paragraph 14 requires an entity to use all outstanding borrowings in determining the capitalisation rate, except those made specifically to obtain a qualifying asset not yet ready for its intended use or sale.

BC14D The Board concluded that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of the funds an entity borrows generally. Accordingly, the Board amended paragraph 14 to clarify this requirement.

BC14E Some respondents to the exposure draft of the proposed amendments to IAS 23 asked the Board to clarify that an entity includes funds borrowed specifically to obtain an asset other than a qualifying asset as part of general borrowings. The amendments to paragraph 14 referring to 'all' borrowings clarify the requirements in this respect.

Borrowing costs eligible for capitalisation (amendments issued in December 2017)

BC18A Developing a qualifying asset may take a long time. Moreover, the development of some assets currently in use may have been completed many years ago. The costs of gathering the information required to capitalise borrowing costs retrospectively may therefore be significant. In addition, the nature of each development generally varies and therefore retrospective application might not provide useful trend information to users of financial statements. The Board concluded that the costs of applying the amendments retrospectively might exceed the potential benefits of doing so. Consequently, an entity applies the amendments only to borrowing costs incurred on or after the date it first applies the amendments.

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