


# Improvements to IFRSs 2010



The International Accounting Standards Board (the Board) has issued *Improvements to IFRSs*, an omnibus of amendments to its standards and the related Basis for Conclusions. The improvements project is an annual project that provides a mechanism for making necessary but non-urgent amendments.

This document summarises the 11 amendments to six standards and one interpretation which result from proposals that were included in the Exposure Draft of *Improvements to IFRSs*, issued in August 2009.

The following table summarises the amendments and transitional provisions. Unless otherwise noted, the proposed effective date for the amendments is for annual periods beginning on or after 1 January 2011. Earlier application is permitted in all cases.



Standard and subject	Summary of change(s)	Transitional provisions	Comments and implications of amendment
<i>IFRS 1 First-time Adoption of International Financial Reporting Standards</i>			
<b>Accounting policy changes in the year of adoption</b>	Clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 <i>Interim Financial Reporting</i> , it needs to explain those changes and update the reconciliations between previous GAAP and IFRS.	The amendment is applied prospectively.	The amendment will increase the amount of disclosures required when accounting policies are changed, putting greater emphasis on initial selection of policies at the date of transition.
<b>Revaluation basis as deemed cost</b>	<p>Allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first IFRS financial statements are issued.</p> <p>When such remeasurement occurs after the date of transition to IFRSs, but during the period covered by its first IFRS financial statements, any subsequent adjustment to that event-driven fair value is recognised in equity.</p>	Entities that adopted IFRSs in previous periods are permitted to apply the amendment retrospectively in the first annual period after the amendment is effective.	<p>The amendment is likely to increase the use of fair value as deemed cost for existing preparers as well as first-time adopters, thereby improving the net asset position of entities.</p> <p>Existing preparers need to evaluate the costs to determine the event-driven fair value and subsequent effects as depreciation charges or impairments. However, they have a limited time frame, ending with the financial year beginning on or after 1 January 2011.</p>
<b>Use of deemed cost for operations subject to rate regulation</b>	<p>Expands the scope of 'deemed cost' for property, plant and equipment or intangible assets to include items used subject to rate regulated activities. The exemption will be applied on an item-by-item basis. All such assets will also need to be tested for impairment at the date of transition.</p> <p>The amendment allows entities with rate-regulated activities to use the carrying amount of their property, plant and equipment and intangible balances from their previous GAAP as its deemed cost upon transition to IFRS. These balances may include amounts that would not be permitted for capitalisation under IAS 16 <i>Property, Plant and Equipment</i>, IAS 23 <i>Borrowing Costs</i> and IAS 38 <i>Intangible Assets</i>.</p>	The amendment is applied prospectively.	<p>As entities will not have to restate historical balances, this amendment significantly reduces the effort necessary upon conversion to IFRS.</p> <p>However, as the exemption is not granted on a prospective basis, the need for separate records for regulatory purposes will continue. In addition, judgment will be required as entities allocate costs to the components required by IAS 16.</p>



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<b>IFRS 3 Business Combinations</b>			
<p><b>Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS</b></p>	<p>Clarifies that the amendments to IFRS 7 <i>Financial Instruments: Disclosures</i>, IAS 32 <i>Financial Instruments: Presentation</i> and IAS 39 <i>Financial Instruments: Recognition and Measurement</i>, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).</p>	<p>The amendment is applicable to annual periods beginning on or after 1 July 2010.</p> <p>The amendment is applied retrospectively.</p>	<p>Contingent consideration recognised from transactions before the revised IFRS 3 is effective, will not be restated. All subsequent changes will affect goodwill rather than profit or loss.</p>
<p><b>Measurement of non-controlling interests (NCI)</b></p>	<p>Limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either:</p> <ul style="list-style-type: none"> <li>▶ At fair value</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>▶ At the present ownership instruments' proportionate share of the acquiree's identifiable net assets.</li> </ul> <p>Other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS, e.g., IFRS 2.</p>	<p>Applicable to annual periods beginning on or after 1 July 2010.</p> <p>The amendment is applied prospectively from the date the entity applies IFRS 3 (revised).</p>	<p>The amendment will increase the elements of NCI measured at fair value in a business combination.</p> <p>The increased use of fair valuation of NCI components may require involvement of valuation specialists.</p> <p>An entity may be required to restate for effects incurred under IFRS 3 (revised), but before the adoption of this amendment.</p>



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<p><b>Un-replaced and voluntarily replaced share-based payment awards</b></p>	<p>Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognised as post-combination expenses.</p> <p>Specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested – they are part of NCI and measured at their marked-based measure; if unvested – they are measured at market-based value as if granted at acquisition date, and allocated between NCI and post-combination expense.</p>	<p>Applicable to annual periods beginning on or after 1 July 2010.</p> <p>The amendment is applied prospectively.</p>	<p>The amendment reduces inconsistencies and clarifies that in each business combination, involving a share-based payments plan of the acquiree, a portion of the purchase price will be allocated to the consideration given and recognition as expenses.</p> <p>Calculating the amounts to be allocated might require the involvement of valuation specialists.</p> <p>An entity may be required to restate for effects incurred under IFRS 3 (revised), but before the adoption of this amendment.</p>



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<i>IFRS 7 Financial Instruments: Disclosures</i>			
<b>Clarifications of disclosures</b>	<p>Emphasises the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.</p> <p>Amendments to quantitative and credit risk disclosures are as follows:</p> <ul style="list-style-type: none"> <li>▶ Clarify that only financial assets whose carrying amount does not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk.</li> <li>▶ Requires, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk).</li> <li>▶ Remove disclosure of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired.</li> <li>▶ Remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired.</li> <li>▶ Clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date.</li> </ul>	The amendment is applied retrospectively.	<p>The overall amendments are intended to simplify the disclosures provided and reduce time and effort in preparing its financial statements. This is achieved especially by reducing disclosure requirements around collateral held.</p> <p>The additional disclosure requirements are expected to have minor impact as information is expected to be readily available.</p>



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<b>IAS 1 Presentation of Financial Statements</b>			
<b>Clarification of statement of changes in equity</b>	Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.	The amendment is applied retrospectively.	This amendment is expected to have little impact on a reporting entity, as the information is captured and presented already.
<b>IAS 27 Consolidated and Separate Financial Statements</b>			
<b>Transition requirements for amendments made as a result of IAS 27 Consolidated and Separate Financial Statements</b>	Clarify that the consequential amendments from IAS 27 made to IAS 21 <i>The Effect of Changes in Foreign Exchange Rates</i> , IAS 28 <i>Investments in Associates</i> and IAS 31 <i>Interests in Joint Ventures</i> apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier.	Applicable to annual periods beginning on or after 1 July 2010. The amendment is applied retrospectively.	This amendment is expected to reduce costs for the preparers. The amendment eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under IAS 39. This includes the effect on accumulated foreign exchange differences on such investments.
<b>IAS 34 Interim Financial Reporting</b>			
<b>Significant events and transactions</b>	Provide guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around: <ul style="list-style-type: none"> <li>▶ The circumstances likely to affect fair values of financial instruments and their classification</li> <li>▶ Transfers of financial instruments between different levels of the fair value hierarchy</li> <li>▶ Changes in classification of financial assets</li> <li>▶ Changes in contingent liabilities and assets</li> </ul>	The amendment is applied retrospectively.	The amendment requires additional disclosures in an entity's interim financial statements. As similar information is already required in annual financial statements, the information systems should already exist to capture it.  Gathering the information for interim periods, however, might increase the time taken to prepare the financial statements.



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<i>IFRIC 13 Customer Loyalty Programmes</i>			
Fair value of award credit	Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	The amendment is applied retrospectively.	The amendment is expected to have little impact as the clarification addresses what industry practice should already have taken into account.

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