IASB concludes the 2012-2014 Annual Improvements Cycle

What you need to know
- In September 2014, the IASB issued Annual Improvements to IFRSs 2012-2014 Cycle, which contains five amendments to four standards, excluding consequential amendments.
- The amendments affect IFRS 5, IFRS 7, IAS 19 and IAS 34.
- The amendments are effective for annual periods beginning on or after 1 January 2016.

Highlights
The International Accounting Standards Board (IASB or the Board) issued their annual cycle of improvements to IFRSs, Annual Improvements to IFRSs 2012-2014 Cycle in September 2014. The document sets out five amendments to four standards, excluding those standards that are consequentialy amended, and the related Basis for Conclusions.

The standards affected and the subjects of the amendments are:
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - changes in methods of disposal
- IFRS 7 Financial Instruments: Disclosures - servicing contracts; applicability of the amendments to IFRS 7 to condensed interim financial statements
- IAS 19 Employee Benefits - regional market issue regarding discount rate
- IAS 34 Interim Financial Reporting - disclosure of information ‘elsewhere in the interim financial report’

How we see it
The amendments in the annual improvements process are intended to be small, non-urgent changes to the standards. However, the amendments could affect certain entities.
Amendments

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<td>IFRS 5</td>
<td>Changes in methods of disposal</td>
<td>Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. For example, on 1 September 2016, Entity A determines that it will distribute shares of its subsidiary to its shareholders. Consequently, it classifies the subsidiary as ‘held for distribution’. However, on 1 December 2016, Entity A decides that, instead of distributing the shares to its shareholders, it will sell the subsidiary. Therefore, it changes the disposal method to ‘held for sale’. The date of classification continues to be 1 September 2016 and the sale must be completed within one year from that date.</td>
<td>The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.</td>
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<td>IFRS 7</td>
<td>Servicing contracts</td>
<td>Paragraphs 42A - H of IFRS 7 require an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.830 and IFRS 7.42C in order to assess whether the disclosures are required.</td>
<td>The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments. This relief was given because the Board conceded that the required disclosures would be too onerous for preparers to produce for previous years, and that the use of hindsight could not be avoided.</td>
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How we see it

The amendment to IFRS 7 relating to servicing contracts could result in servicing entities being required to make further disclosures. For example, if a financial asset is transferred and the servicing fee continues to depend on the cash flows collected from that financial asset, then the servicer will have continuing involvement in that asset and must provide the relevant disclosures.

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To be classified as ‘held for distribution’, the arrangement must meet the criteria in IFRS 5.12A.
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<td>IFRS 7</td>
<td>Applicability of the offsetting disclosures to condensed interim financial statements</td>
<td>In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment, paragraph 44R of IFRS 7 states that “[A]n entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods.” The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report. The amendment removes the phrase ‘and interim periods within those annual periods’ from paragraph 44R, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. However, the Board noted that IAS 34 requires an entity to disclose ‘[...] an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period’. Therefore, if the IFRS 7 disclosures provide a significant update to the information reported in the most recent annual report, the Board would expect the disclosures to be included in the entity’s condensed interim financial report.</td>
<td>The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.</td>
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<td>IAS 19</td>
<td>Discount rate: regional market issue</td>
<td>IAS 19 requires an entity to recognise a post-employment benefit obligation for its defined benefit plans. This obligation must be discounted using market rates on high quality corporate bonds or using government bond rates if a deep market for high quality corporate bonds does not exist. Some entities thought that the assessment of a deep market was based at a country level (e.g., Greece) while others thought it was based at a currency level (e.g., the euro). The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.</td>
<td>The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.</td>
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<td>IAS 34</td>
<td>Disclosure of information ‘elsewhere in the interim financial report’</td>
<td>IAS 34 requires entities to disclose information in the notes to the interim financial statements ‘if not disclosed elsewhere in the interim financial report’. However, it is unclear what the Board means by ‘elsewhere in the interim financial report’. The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.</td>
<td>The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.</td>
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**Next steps**

Entities should analyse these amendments to determine whether the clarifications affect their accounting policies or reporting requirements.

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2 IFRS 7.44R

3 IAS 34.15

4 IAS 34.16A
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