# IFRS in Focus

## IASB issues exposure draft: Annual Improvements to IFRSs 2015-2017 Cycle

## Contents



This edition of IFRS in Focus outlines the proposals set out in the recent exposure draft ED/2017/01 *Annual Improvements to IFRSs 2015-2017 Cycle* (the 'exposure draft') which was published by the IASB in January 2017 for public comment.

### The Bottom Line

- The exposure draft proposes amendments to the following Standards:
  - IAS 12 *Income Taxes*
  - IAS 23 *Borrowing Costs*
  - IAS 28 *Investments in Associates and Joint Ventures*
- Proposed effective dates for the proposed amendments to:
  - IAS 12 and IAS 23: not yet determined
  - IAS 28: annual periods beginning on or after 1 January 2018
- Earlier application is proposed to be permitted for all three proposed amendments.
- The comment period ends on 12 April 2017

### What are the proposed amendments?

The Annual Improvements process provides the IASB with the ability to make necessary, but non-urgent, amendments to IFRSs that address unintended consequences, conflicts or oversights. The publication of the proposals in a single exposure draft is intended to streamline the standard-setting process, providing benefits for both interested parties and the IASB.

The exposure draft for the 2015-2017 cycle proposes amendments to three IFRSs that meet the criteria for the IASB's Annual Improvements process.

**For more information please see the following websites:**

**www.iasplus.com**

**www.deloitte.com**

## What are the proposed amendments?

| Standard | Subject of proposed amendment | Proposed amendment |
|---|---|---|
| IAS 12 *Income Taxes* | Income tax consequences of payments on financial instruments classified as equity | The proposals clarify that an entity should recognise all income tax consequences of dividends (i.e. distribution of profits) in profit or loss, irrespective of how the tax arises. |
| IAS 23 *Borrowing Costs* | Borrowing costs eligible for capitalisation | The proposals clarify that if any *specific* borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows *generally* when calculating the capitalisation rate on general borrowings. |
| IAS 28 *Investments in Associates and Joint Ventures* | Long-term interests in an associate or joint venture | The proposals clarify that IFRS 9 *Financial Instruments*, including its impairment requirements, applies to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied. |

**Observation**

**Proposed amendments to IAS 12**

The key in applying the proposed amendments is to determine whether the payments on the financial instruments constitute distributions of profits, i.e. dividends. This may require significant judgement in certain cases, especially when it concerns payments on financial instruments classified as equity, as these payments do not necessarily represent distributions of profits. If the payments are indeed dividends, the tax consequences on such payments should be recognised in profit or loss; if they are not, the tax consequences should be recognised in other comprehensive income or directly in equity, as appropriate, in terms of IAS 12.61A.

## When would the amendments apply?

The effective dates for the proposed amendments to IAS 12 and IAS 23 (if finalised) will be determined after considering the comments received on the exposure draft. As for IAS 28, the IASB proposes an effective date of 1 January 2018 in order to align it with that of IFRS 9, as the proposed amendment relates to the application of IFRS 9 to long-term interests. Specific transition provisions apply.

Early adoption is proposed to be permitted for all three of the proposed amendments (if finalised).

The comment period of the exposure draft ends on 12 April 2017.

## Key contacts

**Global IFRS Leader**
Veronica Poole
ifrsglobalofficeuk@deloitte.co.uk

## IFRS centres of excellence

| | | |
|---|---|---|
| **Americas** | | |
| **Canada** | Karen Higgins | ifrs@deloitte.ca |
| **LATCO** | Claudio Giaimo | ifrs-LATCO@deloitte.com |
| **United States** | Robert Uhl | iasplus-us@deloitte.com |
| **Asia-Pacific** | | |
| **Australia** | Anna Crawford | ifrs@deloitte.com.au |
| **China** | Stephen Taylor | ifrs@deloitte.com.cn |
| **Japan** | Shinya Iwasaki | ifrs@tohmatsu.co.jp |
| **Singapore** | James Xu | ifrs-sg@deloitte.com |
| **Europe-Africa** | | |
| **Belgium** | Thomas Carlier | ifrs-belgium@deloitte.com |
| **Denmark** | Jan Peter Larsen | ifrs@deloitte.dk |
| **France** | Laurence Rivat | ifrs@deloitte.fr |
| **Germany** | Jens Berger | ifrs@deloitte.de |
| **Italy** | Massimiliano Semprini | ifrs-it@deloitte.it |
| **Luxembourg** | Eddy Termaten | ifrs@deloitte.lu |
| **Netherlands** | Ralph Ter Hoeven | ifrs@deloitte.nl |
| **Russia** | Michael Raikhman | ifrs@deloitte.ru |
| **South Africa** | Nita Ranchod | ifrs@deloitte.co.za |
| **Spain** | Cleber Custodio | ifrs@deloitte.es |
| **United Kingdom** | Elizabeth Chrispin | deloitteifrs@deloitte.co.uk |



Designed and produced by The Creative Studio at Deloitte, London. J10899