Annual Improvements to IFRS Standards *2015-2017 Cycle*

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Summary

On 12 December 2017, the IASB issued its annual improvements to IFRS Standards 2015-2017 Cycle. The amendments relate to an exposure draft issued on 12 January 2017.

The Improvements affect four standards as follows:

STATUS
Final

EFFECTIVE DATE
Periods beginning on or after 1 January 2019

ACCOUNTING IMPACT
May be significant

Standard Affected	Amendment Relates To:	Effective date
IFRS 3 *Business Combinations*	Remeasurement of an investor's previously held interest in a joint operation that is a business when it obtains control of the business	Periods beginning on or after 1 January 2019
IFRS 11 *Joint Arrangements*	Remeasurement of an investor's previously held interest in a joint operation that is a business when it obtains joint control of the business	Periods beginning on or after 1 January 2019
IAS 12 *Income Taxes*	Accounting for the income tax consequences of dividend payments	Periods beginning on or after 1 January 2019
IAS 23 *Borrowing Costs*	Clarifying which borrowing costs are eligible for capitalisation	Periods beginning on or after 1 January 2019

Improvements to IFRS Standards *2014-2016 Cycle*

IFRS 3 *Business Combinations*

Sometimes an entity which is a party to a joint arrangement in a business that is a joint operation (as defined in IFRS 11 *Joint Arrangements*) subsequently obtains control of that joint arrangement. The amendment to IFRS 3 clarifies that, if and when an entity subsequently obtain control, it must remeasure its previously held interest at the acquisition-date fair value. The entity recognises any difference between the joint operation's acquisition-date fair value and previous carrying value as a gain or loss.

The amendment therefore means that when a party to a joint operation obtains control, it applies the same requirements already in IFRS 3 that apply to business combinations achieved in stages.

This improvement is effective for periods beginning on or after 1 January 2019, although earlier application is permitted. Entities must apply the amendment on a prospective basis only, i.e. they are not permitted to restate the accounting applied to such transactions in periods before the amendment is first applied.

IFRS 11 *Joint Arrangements*

The amendment to IFRS 11 deals with a related (but different) transaction to that dealt with by the above amendment to IFRS 3. It addresses situations in which an entity is a party to a joint arrangement that is a joint operation (as defined in IFRS 11 *Joint Arrangements*) – but, importantly, does not have joint control of the joint operation – and subsequently obtains joint control. The amendment clarifies that if and when the entity subsequently obtains joint control, it must *not* remeasure its previously held interest. The amendment therefore aligns with the accounting applied to transactions in which an associate becomes a joint venture and vice versa.

As with the above improvement to IFRS 3, the amendment to IFRS 11

- is effective for periods beginning on or after 1 January 2019, although earlier application is permitted; and
- must be applied by entities on a prospective basis only, i.e. they are not permitted to restate the accounting applied to such transactions in periods before the amendment is first applied.

IAS 12 *Income Taxes*

In some jurisdictions, the amount of income taxes payable by an entity is affected by dividends paid to holders of equity instruments. The amendment to IAS 12 clarifies that the income tax consequences (if any) of dividends as defined in IFRS 9 (i.e. distributions of profits to holders of equity instruments in proportion to their holdings) must be recognised:

- at the same time as the liability to pay those dividends is recognised; and
- in profit or loss, other comprehensive income, or the statement of changes in equity according to where the entity originally recognised the past transactions or events that generated the distributable profits from which the dividends are being paid.

It is therefore necessary to link dividends to past transactions in order to determine where the income tax consequences (if any) of dividends should be recognised. This may require judgement if, for example, entities pay dividends by reference to liquidity tests rather than by reference to accounting reserves. Further, unless affected entities currently separate reserves into those generated from transactions recognised in the profit or loss, other comprehensive income, or the statement of changes in equity, systems may be need to be implemented keep track of cumulative distributions made from each.

The amendment to IAS 12 is effective for periods beginning on or after 1 January 2019, although earlier application is permitted. Entities must apply the amendment to income tax consequences of dividends recognised on or after the beginning of the earliest comparative period presented.

IAS 23 *Borrowing Costs*

When an entity uses funds borrowed generally for the purposes of constructing a qualifying asset, paragraph 14 of IAS 23 requires it to apply a capitalisation rate to the expenditure on that qualifying asset. This capitalisation rate is the weighted average of the entity's borrowings that are outstanding during the period, excluding borrowings made specifically for the purpose of constructing that, or any other, qualifying asset.

The amendment to IAS 12 clarifies that once a qualifying asset funded through specific borrowings becomes ready for its intended use or sale (such that borrowing costs incurred on the specific borrowings can no longer be capitalised as part of the cost of that qualifying asset), those borrowings then become part of the pool of general borrowings. Therefore, from that date, the rate applied on those borrowings are included in the determination of the capitalisation rate applied to general borrowings for the purposes of paragraph 14.

The amendment to IAS 23 is effective for periods beginning on or after 1 January 2019, although earlier application is permitted. Entities are required to apply the amendment only to borrowing costs incurred on or after the beginning of the annual reporting period in which the amendment is first applied. Therefore, there is no effect on equity at the start of the earliest period presented.

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