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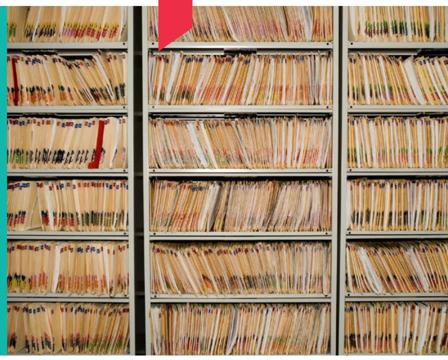
ANNUAL IMPROVEMENTS TO IFRSs (2010 – 2012 CYCLE)
INTERNATIONAL FINANCIAL REPORTING BULLETIN 2013/28



Summary

On 12 December 2013 the International Accounting Standards Board (IASB) published *Annual Improvements to IFRSs 2010 – 2012 Cycle* (the improvements) which sets out amendments to seven IFRSs.

Standard	Amendment(s) relate to:
IFRS 2 ***Share-based Payment*** *(Prospective application)*	– Amended definitions of vesting and market condition – New definitions of performance and service conditions.
IFRS 3 ***Business Combinations*** *(Prospective application)*	– The subsequent measurement of contingent consideration in a business combination that does not meet the definition of an equity instrument.
IFRS 8 ***Operating Segments*** *(Retrospective application)*	– Disclosure of judgements made relating to the aggregation of operating segments – Disclosure of the reconciliation of reportable segments' assets to total entity assets.
IFRS 13 ***Fair Value Measurement*** *(Basis for Conclusions)*	– Addition made to the *Basis of Conclusion* to clarify that short-term receivables and payable are still able to be measured on an undiscounted basis (where the effect of discounting is immaterial) in the light of amendments to IFRS 9/IAS 39.
IAS 16 ***Property, Plant and Equipment*** *(Retrospective application)*	– Clarifies the treatment of accumulated depreciation and the gross carrying amount of revalued items of property, plant and equipment.
IAS 24 ***Related Party Disclosures*** *(Retrospective application)*	– Entities that provide key management personnel services to a reporting entity, or the reporting entity's parent, and whether they are related parties of the reporting entity.
IAS 38 ***Intangible Assets*** *(Retrospective application)*	– Clarifies the treatment of accumulated amortisation and the gross carrying amount of revalued items of property, plant and equipment.

The above annual improvements have an effective date of 1 July 2014, with early application permitted.

(Note: the amendments to IFRS 2 and IFRS 3 refer to share-based payment and business combination transactions respectively that occur on or after 1 July 2014, rather than reporting periods. The amendment to IFRS 13 is to the *Basis for Conclusions* and therefore has no specific effective date.)

STATUS
Final

EFFECTIVE DATE
1 July 2014, with earlier application permitted

ACCOUNTING IMPACT
May be significant.

Amendments

IFRS 2 *Share-based Payment*

Issue: **Definition of vesting condition**

The proposed amendment clarifies the definition of vesting conditions and market conditions by separately defining a performance condition and a service condition, both of which were previously incorporated within the definition of a vesting condition without themselves being specifically defined. A summary of the amended definitions is:

Term	Summary definition
Performance condition *(Separate definition)*	A vesting condition that requires: (a) An implicit or explicit specified period of service to be completed by the counterparty, and (b) Achievement of specified performance target(s)[1] during the specified period of service[2] above. 1 Performance target(s) refer to the entity's (or another group entity's): – Operations/activities, or – Price/value of equity instruments. 2 The period of achieving the performance target(s): – Must not go beyond the end of the service period – May start before the service period (as long as it is not substantially before).
Service condition *(Separate definition)*	A vesting condition that requires: – The completion of a specified period of service during which services are provided (by the counterparty to the entity). If the provision of services ceases, the condition is not met. A service condition does not require a performance target(s) to be met.
Vesting condition *(Revised definition)*	A condition under a share-based payment arrangement that determines whether the entity receives the services that entitle the counterparty to receive payment (i.e. in cash, other assets, or equity instruments of the entity), being either: – A performance condition, or – A service condition.
Market condition *(Revised definition)*	A performance condition referenced to the market price (or value) of the entity's (or another group entity's) equity instruments, e.g.: – Attaining a specified share price – Attaining a specified intrinsic value of a share option – Achieving a specified target based on the market price (or value) of the entity's (or another group entity's) equity instruments (or the equity relative to the market index. A market condition also requires an explicit, or implicit, service condition to be met.

IFRS 3 *Business Combinations*

***Issue*: Accounting for contingent consideration in a business combination**

The amendment clarifies that contingent consideration is assessed as either a liability or an equity instrument on the basis of IAS 32 *Financial Instruments: Presentation*. Consequently, the following references are deleted:

– '*other applicable IFRSs*' in IFRS 3.40
– '*…IAS 37 or other IFRSs…*' in IFRS 3.58(b)(ii).

The amendment also requires contingent consideration that is not classified as equity to be remeasured to fair value at each reporting date, with changes in fair value being reported in profit or loss.

Consequential amendments have also been made to a number of other IFRSs, including:

– IFRS 9 and IAS 39: Requiring that contingent consideration in a business combination is classified and measured at fair value through profit or loss
– IAS 37: Excluding from its scope contingent consideration in a business combination.

IFRS 8 *Operating Segments*

***Issue:* Aggregation of operating segments**

Additional disclosures are required when operating segments have been aggregated in determining reportable segments. The additional disclosures are the judgments made by management in applying the aggregation criteria used to assess that the aggregated segments have similar economic characteristics. These include:

i. A description of the operating segments that have been aggregated
ii. The economic indicators considered in determining that the aggregated operating segments share similar economic characteristics.

***Issue*: Reconciliation of the total of a reportable segment's assets to the entity's assets**

The amendment clarifies that a reconciliation of the total of reportable segments assets to the entity's assets is only required if a measure of segment assets is regularly provided to the chief operating decision maker.

IFRS 13 *Fair Value Measurement*

***Issue:* Short-term receivables and payables**

The amendment clarifies that short-term receivables and payables with no stated interest rate can still be measured at the invoice amount without discounting, where the effect of discounting is immaterial.

The amendment makes clear that the board did not intend to remove this practical expedient when IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* were amended as a result of IFRS 13 *Fair Value Measurement*.

IAS 16 *Property, Plant and Equipment/IAS 38 Intangible Assets*

***Issue*: Revaluation method - proportionate restatement of accumulated depreciation**

The amendment clarifies the computation of accumulated depreciation when intangible assets and/or items of property, plant and equipment are subsequently measured using the revaluation model. The net carrying amount of the asset is adjusted to the revalued amount, and either:

(i) The gross carrying amount is adjusted in a manner consistent with the net carrying amount (e.g. proportionately to the change in the [net] carrying value, or with reference to observable market data). Accumulated depreciation/amortisation is then adjusted to equal the difference between the gross and net carrying amounts
(ii) Accumulated depreciation/amortisation is eliminated against the gross carrying amount.

IAS 24 *Related Party Disclosures*

***Issue:* Key management personnel**

The amendment clarifies that an entity that provides key management personnel services ('management entity') to a reporting entity (or to the parent of the reporting entity), is a related party of the reporting entity.

The amendment would require separate disclosure of amounts recognised as an expense for key management personnel services provided by a separate management entity.

However, the amendment also clarifies that it would not be necessary for the reporting entity to report the compensation paid or payable by the management entity to the management entity's employees or directors within the categories set out in IAS 24.17.

What should entities do in response to the amendments?

Entities should consider whether any of the new amendments would have a significant effect on their financial statements. These include entities that:

– May have share-based payment transactions with grant dates on or after 1 July 2014
– May have contingent consideration balances from business combinations with acquisitions dates on or after 1 July 2014
– Are required to comply with IFRS 8 *Operating Segments*
– Have considered whether short-term receivable and payable balances should be discounted
– Revalue items of property, plant and equipment and/or intangible assets
– Are provided with key management personnel services by another entity.

Effective date

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