

IFRS 1 *First-time Adoption of International Financial Reporting Standards* (September 2017)

Subsidiary as a first-time adopter

The Committee received a request about the accounting applied by a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent. The subsidiary has foreign operations, on which it accumulates translation differences as part of a separate component of equity. The submitter asked whether, applying paragraph D16 of IFRS 1, the subsidiary is permitted to recognise cumulative translation differences at an amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs.

Paragraph D16 of IFRS 1 provides a subsidiary that becomes a first-time adopter of IFRSs later than its parent with an exemption relating to the measurement of its assets and liabilities. Translation differences that the subsidiary accumulates as part of a separate component of equity are neither assets nor liabilities. Accordingly, the Committee concluded that paragraph D16 of IFRS 1 does not permit the subsidiary to recognise cumulative translation differences at the amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs.

The Committee also concluded that the subsidiary cannot apply the exemption in paragraph D16 of IFRS 1 to cumulative translation differences by analogy—paragraph 18 of IFRS 1 explicitly prohibits an entity from applying the exemptions in IFRS 1 by analogy to other items.

Accordingly, when the subsidiary becomes a first-time adopter of IFRS Standards, the subsidiary accounts for cumulative translation differences applying paragraphs D12–D13 of IFRS 1. These paragraphs require the subsidiary to recognise cumulative translation differences either at zero or on a retrospective basis at its date of transition to IFRS Standards.

The Committee concluded that the requirements in IFRS Standards provide an adequate basis for a first-time adopter to determine how to account for cumulative translation differences. Consequently, the Committee decided not to add this matter to its standard-setting agenda.