

ADMIN PAPER

Due Process Oversight Committee

To David Sidwell, Chairman—Due Process Oversight Committee

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Subject **Finalisation of IFRS 10 (Proposed amendments to transition guidance)**

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Introduction

On 28 June 2012, the Board is planning to issue amendments to the transition guidance of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*

In this memorandum I wish to:

- (a) explain to the Due Process Oversight Committee (the DPOC) the steps in the due process we have taken before the publication of the amendments (see Appendix A) and to confirm that we have complied with the due process requirements; and
- (b) give the DPOC a brief summary of the confirmed amendments (see below).

There is one potentially controversial component to the amendments. The final amendments provide relief on initial application of IFRS 10, IFRS 11 and IFRS 12 that was not included in the related exposure draft. However, as this paper explains, the Board took particular care to consider this point and decided that re-exposure was not necessary. Re-exposing the amendments would, in fact, have prevented the Board from making timely reductions to the burden of moving to the new IFRSs.

Board consideration of due process and approval of amendments

Before approving the amendments the Board considered two papers prepared by the staff—Agenda Papers 9A and 9B, at the May Board meeting.

Board members were asked:

- if they were satisfied that they had been given sufficient feedback and analysis from the consultation steps that were performed;
- whether re-exposure of any aspects of the amendments was necessary; and
- whether all mandatory due process steps had been met in developing these amendments.

The Board resolved to proceed to the formal balloting process and to finalise the amendments, stating that it was satisfied that it had met its due process requirements.

Background

In May 2011 the IASB published IFRS 10 *Consolidated Financial Statements*.

In September 2011 the IFRS Interpretations Committee discussed a request to clarify the transition requirements when IFRS 10 is first applied. The Interpretations Committee was told that, in preparing for the application of IFRS 10, some applying IFRS were interpreting IFRS 10, or being advised, that they will need to restate the accounting for investees they had disposed of before the new requirements come into effect. This was never the Board's intention—any restatement of comparative figures was supposed to be limited to those investees controlled at the date of acquisition. The broader interpretation would be significantly more burdensome than applying what the Board intended. The Interpretation Committee recommended that the Board clarify the requirements.

In December 2011 the staff notified the Due Process Oversight Committee by email of its intention to ask the Board for a shorter than normal comment period. The Board discussed this at its December 2011 meeting voted unanimously to shorten the comment period to 90 days, ending on 21 March 2012. The Board did so on the basis that the document was short, the matter was urgent and there was likely to be broad consensus on the topic.

In December 2011 the IASB published the exposure draft *Transition Guidance: Proposed Amendments to IFRS 10* (the ED) reflecting those additions in order to allay the concerns of some who thought that the transition provisions in the standard were more burdensome than originally intended.

In May 2012 the IASB confirmed its proposals for amendments to IFRS 10 transition guidance and further added some transition relief.

Due process

The *IASB Due Process Handbook* includes mandatory and non-mandatory due process steps that are required to be undertaken before the publication of an exposure draft or the issue of a new IFRS or amendments to existing IFRSs. The Board is required to explain why it has not undertaken any of the non-mandatory steps (ie the ‘comply or explain’ approach).

Mandatory steps

Publishing an exposure draft, with a basis for conclusions and alternative views if relevant

The Board published the exposure draft *Transition Guidance: Proposed amendments to IFRS 10* (the ED) in December 2011. The ED had a comment period ending on 21 March 2012. The ED was approved by all fifteen Board members and included a Basis for Conclusions.

Comment letter period and review

In December 2011, after having consulted with, and gaining support from, the Due Process Oversight Committee (DPOC), the Board unanimously voted to shorten the comment period on the ED from 120 days to 90 days. The Board believed that this would be appropriate because the document was short, the Board believed that there was likely to be a broad consensus on the topic and it was important that the extent of the relief should be made known as soon as practicable.

The IASB received 64 comment letters. A comment letter summary was presented to the Board at the May 2012 meeting.

Considering the need for re-exposure

The vast majority of respondents agreed with the proposed amendments to IFRS 10 set out in the exposure draft, subject to some drafting changes. Several respondents requested additional changes, most significantly the deferral of the effective date for IFRS 10, IFRS 11 and IFRS 12 (the new standards) or, as an alternative to deferral, additional transition relief to restrict the requirements for comparative information.

In January 2012, the Board reconsidered the 1 January 2013 mandatory effective date and unanimously agreed not to defer it.

At the May 2012 meeting, the staff asked the Board to give additional transition relief in two areas: restricting to only the preceding period the requirement to present restated comparatives on initial application of the new standards; and removing the requirement

for comparative information relating to unconsolidated structured entities on initial application of IFRS 12.

The Board agreed to provide this additional relief and decided that re-exposure would not be necessary.

Comments received in response to the December ED suggested that the preparatory work being undertaken by entities has highlighted that complying with the comparative requirement is proving to be more onerous than some of those entities had originally thought. When the Board considered the transition provisions for IFRS 10, IFRS 11 and IFRS 12 at the time those standards were developed it considered giving the relief included in these amendments. However, at the time, the information available to the Board suggested that such relief was not necessary, because entities would have sufficient time and information to meet the disclosure requirements. However, when it considered the transitional relief again in May 2012 the Board had additional information that it did not have when it finalized the IFRSs. If the comparative relief had been provided when IFRS 10, IFRS 11 and IFRS 12 were originally approved, providing the relief would not have been a matter for re-exposure.

The Board therefore considered that re-exposure would not be helpful, because they simply had more and better information now than they had in early 2011 when the IFRSs were finalized. Re-exposing the additional concessions would mean they would not be finalized in time to be helpful to entities applying the new requirements.

The additional concessions on transition were also seen by the Board as responding to the feedback received on the December ED as well as additional representations made to the IASB after the publication of IFRSs 10, 11 and 12. In particular, during the endorsement process undertaken by EFRAG the IASB received representations from several parties (both inside and outside of the EU) seeking the changes the Board is implementing. The changes are also consistent with the messages that EFRAG conveyed to the IASB on behalf of the parties its consulted with and the informal consultations undertaken by the IASB.

The staff and Board were particularly sensitive to the question of re-exposure because the IASB has recently re-exposed, or announced plans to re-expose, several major projects. This might have created an expectation that the Board was taking a more conservative approach to re-exposure. The Board was also aware of a previous due process complaint in relation to IFRS 11 related to drafting changes between the ED and the Standard.

It was against this backdrop that the Board approved the changes.

Non-mandatory steps

Because this ED is a narrow-scope amendment and not a major project, consultation through the comment letter process is considered to be sufficient. Consequently, steps such as the publication of a discussion document, the establishment of a working group, the holding of public hearings and the undertaking of fieldwork were considered to be unnecessary.

The amendments

The Board decided to finalise the following amendments:

- Add a definition of the date of initial application to IFRS 10. This would be 'the beginning of the reporting period in which IFRS 10 is applied for the first time';
- Clarify that an entity is not required to make adjustments to the accounting for its involvement with an entity that was disposed of in the comparative period(s); and
- Paragraphs C4—C5 of IFRS 10 are amended to clarify how the investor shall retrospectively adjust comparative periods when the consolidation conclusion changes between IAS 27 *Consolidated and Separate Financial Statements*/SIC-12 *Consolidation-Special Purpose Entities* and IFRS 10. The amendments to paragraph C4 will also clarify that when an investor concludes that it shall consolidate an investee that was not previously consolidated, and control was obtained before the effective date of the 2008 revisions to IFRS 3 *Business Combinations* and IAS 27, an entity can apply either the revised versions of those standards or the previous versions.

The Board also decided to provide additional transition relief in IFRS 10, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*:

- to limit the requirement to provide adjusted comparative information to only the preceding comparative period; nevertheless, presentation, in addition, of earlier adjusted comparative periods is not prohibited. If earlier comparative information is not restated, it should be made clear on the face of the financial statements that the earlier periods have not been adjusted. (Twelve Board members agreed); and
- for the first year that IFRS 12 is applied, to remove the requirement to present comparative information for the disclosures related to unconsolidated structured entities. All Board members agreed.

- to provide an exemption from the requirement in paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to present quantitative information for the current period for each line item affected by the retrospective application of IFRS 10 and IFRS 11. Instead, an entity need only present the quantitative information required by paragraph 28 (f) of IAS 8 for the period immediately preceding the date of initial application of IFRS 10, but may present this information for the current period or for earlier comparative periods if it wishes to do so.

Lastly, the Board discussed whether similar transition relief should be provided for first-time adopters of IFRS. It was noted that the issues raised regarding retrospective application were not specific to IFRS 10 and should be considered more comprehensively. As a result, the Board did not make any decisions on this topic in relation to IFRS 10 but instead asked the staff to examine the issue for future consideration by the Board.

The Board asked the staff to prepare a ballot draft reflecting the decisions made at the meeting.

Appendix A

Confirmation of Due Process Steps followed in the finalisation of an Amendment to an IFRS

The following table sets out the due process steps followed by the IASB in the development of the amendments to the transition guidance of IFRS 10.

Due Process Protocol

Project: Transition Guidance Amendment to IFRS 10

Stage: Finalisation of an Amendment to an IFRS

Date of this version: 20 June 2012

Step	Required/Optional	Metrics or evidence	Protocol for and evidence provided to DPOC	Actions
Consideration of information gathered during consultation				
IASB posts all comment letters received in relation to the exposure draft on the project pages.	Required if request issued Exposure draft issued 20 Dec 2011. Comment deadline 21 March 2012.	Letters posted on project pages – completed.	IASB reports on progress as part of the quarterly report at Trustee meetings, including summary statistics of respondents.	64 comment letters received – all posted on IASB website. Next DP action – see below. Subsequently, report on progress and summary statistics to be included in quarterly report to Trustees at their July 2012 meeting.
Round-tables between external participants and members of the IASB.	Optional None – narrow-scope amendment.	Number of meetings held	DPOC receives a report on outreach activities	N/A
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Required In progress.	Number of meetings held to discuss topic. Project Website contains a full description with up-to-date information on the project. Meeting papers posted in a timely fashion.	IASB discusses progress on major projects, in relation to the due process being conducted, with DPOC. IASB review with DPOC its due process over project life cycle, and how any issues regarding due process have been/are being addressed.	Papers presented to IASB at its May 2012 meeting – all posted on the website (May 2012 meeting folder): <ul style="list-style-type: none"> - Comment letter analysis (Paper 9A) - Due Process considerations (Paper 9B). Next DP action – see below.

		Number of meetings with Consultative Group and confirmation that critical issues have been reviewed with Consultative Group	DPOC meets with the Advisory Council to understand perspectives of stakeholders. DPOC reviews and responds to comments on due process as appropriate.	
Analysis of likely effects of the forthcoming IFRS or major amendment, for example, costs or on-going associated costs.	Required None – narrow-scope amendment. Effect analysis published already for IFRS 10.	Publication of effect analysis	IASB reviews with DPOC results of effect analysis and how it has considered such findings in proposed IFRS. IASB provides a copy of the effect analysis to the DPOC at the point of standard's publication.	N/A

Finalisation				
Need for re-exposure of standard considered	Required Completed.	An analysis of the need to re-expose is considered at a public IASB meeting, using the agreed criteria	IASB discusses its thinking on the issue of re-exposure with the DPOC	At its May 2012 meeting the IASB discussed Due Process Considerations (Paper 9B), including the need for re-exposure.
IASB sets an effective date for standard, considering the need for effective	Required Completed.	Effective date set, with full consideration of implementation challenges	The IASB discusses any proposed shortening of the period for effective application with the DPOC	Effective date for IFRS 10 already considered as set as applying for annual periods beginning on or after 1 January 2013.

implementation, generally providing at least a year.				
Drafting quality assurance steps are adequate	Required	Translations team included in review process.	DPOC receives summary report on due process steps before an IFRS is issued.	In progress, pre-ballot draft circulated 25 May, including to Translations team. Next DP action – summary report to DPOC before amendment is issued.
Drafting quality assurance steps are adequate	Required	XBRL team included in review process.	DPOC receives summary report on due process steps before an IFRS is issued.	In progress, pre-ballot draft circulated 25 May, including to XBRL team (included in Technical Staff e-mail group). Next DP action – as above.
Drafting quality assurance steps are adequate	Optional In progress.	Review draft made available to members of IFASS and comments collected and considered by the IASB	DPOC receives summary report on due process steps before an IFRS is issued.	In progress, pre-ballot draft made available to IFASS on Sharepoint 25 May for fatal flaw review. Next DP action – as above.
Drafting quality assurance steps are adequate	Optional None – narrow-scope amendment.	Review draft posted on project website.	DPOC receives summary report on due process steps before an IFRS is issued.	N/A
Due process steps reviewed by IASB	Required	Summary of all due process steps discussed by the Board before an IFRS is issued	DPOC receives summary report on due process steps before an IFRS is issued.	Due process considerations considered by the IASB at its May 2012 meeting (Paper 9B).
Publication				
Press release to announce final standard.	Optional	Release announced in timely fashion Amount of media coverage of release	DPOC receives a copy of the press release and a summary of media coverage.	

Feedback statements provided, which provide high level executive summaries of the standard and explains how the IASB has responded to comments received.	Required	Publication of feedback statement	IASB provides a copy of the feedback statement to the DPOC at the point of standard's publication.	
Podcast to provide interested parties with high level updates or other useful information about the standard.	Optional	Number of podcasts held	DPOC receives a report on outreach activities.	
IFRS published	Required	Official release	DPOC informed of release.	