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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: 22 February 2007, London

Project: Annual improvement process

Topic: Restructure of IFRS 1 (Agenda Paper 7B)

1. The staff are concerned that IFRS 1 *First-time Adoption of International Financial Reporting Standards* is becoming unwieldy. In the period of less than four years since it was issued, it has already been amended several times to accommodate first-time adoption requirements resulting from new or amended standards. Because of the way IFRS 1 is structured, these amendments make the standard more complex and less clear. In the future, as more amendments become necessary, this problem will become worse.
2. This paper therefore outlines a staff proposal to use the annual improvements process to improve the structure of IFRS 1 without amending its substance. The proposed revised structure would be easier for the reader to understand and better designed to accommodate future changes.

Staff recommendation

3. The staff recommend that the Board should undertake a project to restructure IFRS 1 as part of the annual improvements project.

Background

4. IFRS 1 provides an initial reference point for entities making the transition to IFRSs. Broadly, the standard defines transition and how it occurs, provides guidance on how to make the transition, sets out exemptions from the requirements of IFRSs on first time adoption, prescribes disclosure requirements and specifies the application date.
5. Since IFRS 1 replaced SIC-8 *First-time Application of IASs as the Primary Basis of Accounting* it has been amended 13¹ times (with more changes now in the pipeline). The purpose of most of these amendments is to provide first-time adopters with requirements similar to the transitional provisions in new or amended standards issued since IFRS 1 was introduced.
6. IFRS 1 paragraph 9 states that ‘transitional provisions in other IFRSs apply to changes in accounting policies made by an entity that already uses IFRSs; they do not apply to a first-time adopter’s transition to IFRSs, except as specified in paragraphs 25D, 25H, 34A and 34B’. Therefore, transitional provisions in a new standard or amendment that are also applicable to first-time adopters require an amendment to IFRS 1.
7. When IFRS 1 was drafted, the Board did not adopt a general policy of giving first-time adopters the same accounting options of prospective application that some IFRSs gave to entities that already apply IFRSs. Permitting prospective application by a first-time adopter conflicted with the Board’s primary objective of comparability over time within an entity’s first IFRS financial statements. Therefore, the Board decided that it would consider case by case

¹ This figure represents changes to provide new exemptions or exceptions on first-time adoption.

when it issued a new IFRS whether a first-time adopter should apply that IFRS retrospectively or prospectively.

8. The Board expected that retrospective application would be appropriate in most cases (given its primary objective of comparability over time within a first-time adopter's first IFRS financial statements). However, of the seven IFRSs that have been issued since IFRS 1, the transitional provisions relating to six of these have been reflected in IFRS 1.

Outline of restructure proposal

9. The staff propose to streamline IFRS 1 by removing the specific exemptions and exceptions from the body of the standard and placing them in appendices. The body of the standard would then contain what the staff believe is the core framework of IFRS 1 (paragraphs 1-12, 31-34, 35, 36 and 37-47).
10. A rough structure of the body of IFRS 1 would be:
 - Objective
 - Scope
 - Recognition and measurement:
 - opening IFRS balance sheet
 - accounting policies
 - Presentation and disclosure:
 - comparative information
 - explanation of transition to IFRSs
 - Effective date

11. The appendices could be categorised as follows:
- Defined terms
 - Business combinations
 - Permanent exemptions
 - Short-term exemptions
 - Exceptions
 - Amendments to other IFRSs
 - Effective dates
12. ‘Exemptions’ refers to relief from some of the requirements of IFRSs. ‘Permanent exemptions’ would include items such as the IFRS 3 exemption relating to past business combinations. ‘Short-term exemptions’ would include items that are applicable for only fixed period in time (for example, the IFRS 5 exemption relating to entities with a transition date before 1 January 2005). These exemptions could be removed after a period of time. ‘Exceptions’ includes prohibitions on the retrospective application of some aspects of IFRSs (for example, derecognition of financial assets and financial liabilities).
13. The benefits of this structure are that the main requirements of IFRS 1 would be clear and easy to navigate. Exemptions and exceptions relating to specific standards would be categorised and presented at the rear of the standard. This would help preparers to identify the main paragraphs of IFRS 1 before exploring the detail of specific exemptions or exceptions.
14. **Does the Board agree that IFRS 1 should be restructured?**

Timing

15. If the Board agrees to restructure IFRS 1, the staff expect to present a revised IFRS 1 at the April Board meeting.

Appropriateness of the annual improvements process

16. The staff believe that the annual improvements process is the most appropriate vehicle for restructuring IFRS 1. The scope of this proposed project is to revise only the structure of IFRS 1. There would be no change to the technical content of the standard (unless it were necessary for the structure). Therefore, although the changes might appear to be extensive, they would be a matter of form, not substance.
17. Making the change as part of the annual improvements process would also be more efficient and less burdensome for the Board and its constituents than a stand-alone amendment.
18. **Does the Board agree that the IFRS 1 restructure should be included in the annual improvements process?**