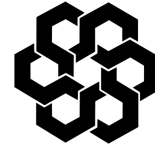

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International Accounting Standards Board

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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:	**17 April 2008, London**
Project:	**Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate**
Subject:	**Transition and Effective Date (Agenda paper 9C)**

Introduction

1. This paper addresses transition and effective date for the amendments discussed in Agenda Papers 9A and 9B.

Transition

Comment letter summary

2. The exposure draft proposed that all of the amendments be applied prospectively. Most respondents agreed with that proposal. Several respondents noted that retrospective application would be costly and would not be justified by the additional benefit to users. Respondents also stated that the necessary information may not be available in all circumstances.

3. Other respondents agreed that retrospective application of the amendments should not be mandatory, but suggested that the Board permit entities to apply the amendments retrospectively.

4. In relation to the proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, one respondent stated:

> ‘some entities that have already made the transition to IFRSs for their separate financial statements may feel disadvantaged (e.g. through a reduction of profits available for distribution) by not having been able to apply the new requirements at that time. We see no reason to prohibit retrospective application which is the normal treatment in IAS 8.’ (CL 46)

5. In addition, one respondent asked for clarification on whether the amendments apply prospectively to all investments in subsidiaries, jointly controlled entities and associates or whether they apply only to new investments arising after the application date (CL 2).

6. In relation to the amendment on new parent formations, several respondents suggested that the Board permit retrospective application. Those respondents highlighted the implications for impairment and dividend distributions of new parent formations undertaken previously at fair value. Some respondents suggested following the model in IFRS 1 for business combinations. That is, an entity would be able to elect whether or not to apply the amendment retrospectively, but if it decides to do so, it would have to apply the amendment to all new parent formations after the application date.

Staff analysis and recommendations

7. This section analyses separately the transition requirements for each set of amendments proposed.

IFRS 1 amendment to permit deemed cost

8. The underlying principle in IFRS 1 is that a first-time adopter should prepare financial statements as if it had always applied IFRSs, but there are a number of exemptions and exceptions that allow or require a first-time adopter to deviate from the general principle. The objective of IFRS 1 is to ensure that an entity’s first IFRS financial statements contain high quality financial information that:

    a. is transparent for users and comparable over all periods presented;

    b. provides a suitable starting point for accounting under IFRSs; and

c. can be generated at a cost that does not exceed the benefits to users.

9. First-time adoption is a singular event: an entity qualifies for first-time adopter status only once. Consequently, entities that have already transitioned to IFRSs in their separate financial statements do not qualify to use the amendments proposed in the ED, even if the amendments to IFRS 1 are allowed retrospective application. Said differently, an entity cannot be a first-time adopter twice.

10. Further, the deemed cost exemption is provided in order to ease the cost associated with transitioning to IFRSs in the separate financial statements. Entities that have already transitioned to IFRSs in their separate financial statements should not require the relief proposed in the ED; they have already determined cost in accordance with IAS 27.37.

IAS 27 amendments to remove the 'cost method' and account for dividends receivable from investments as income in the separate financial statements

11. In agenda paper 9A, the staff recommends that the Board:

    a. retain the proposal that an investor shall recognise as income in its separate financial statements dividends receivable from a subsidiary, jointly controlled entity or associate; and

    b. modify the proposal to require an impairment test of the related investment such that the right to receive the dividend may be an indicator of impairment, particularly in situations where the amount of the dividend reduces the recoverable amount of the investment below its carrying amount in the investor's separate financial statements.

12. If the Board agrees with that recommendation, it would represent a change from the method described in IAS 27 for assessing dividends in the separate financial statements. Instead of having to make a determination based on pre-acquisition versus post-acquisition profits, entities use an impairment test to assess whether the dividend receipt (or receivable) actually represents a return of capital. From a practical standpoint, the use of the impairment test (as opposed to the 'cost method') is expected to be more easily operationalised by constituents, particularly in the light of jurisdictional legal requirements surrounding distributable profits.

13. Because the Board has not prescribed a different measurement basis (just an alternate method for assessing dividend receipts), the answers received using the proposals in the ED should not significantly differ from the answers received using the current requirements in IAS 27. Therefore, the marginal benefit of requiring retrospective application would likely be very small. However, if an entity wants to undertake the exercise, we do not have a compelling reason to prevent them from doing so. As a result, the staff recommend permitting restrospective application of these amendments to IAS 27. The staff also propose that, if an entity chooses retrospective application of these amendments, it must apply the new proposals retrospectively to all dividend receipts—it may not do so on an investment by investment basis.

14. Does the Board agree with the staff's proposal to permit retrospective application of these amendments to IAS 27 with the provision that, if retrospective application is chosen, the new proposals shall be applied to all dividend receipts in the separate financial statements?

IAS 27 amendment on new parent formations

15. In agenda paper 9B, the staff recommends that the Board clarify that a new parent may in its separate financial statements use either fair value or a carryover basis to measure its investment in the previous parent until the issue is addressed in the common control project. Given the nature of that amendment, the staff recommends that entities be permitted to apply it retrospectively.

16. Does the Board agree that entities should be permitted to apply the amendment for new parent formations retrospectively?

Effective date

17. The staff recommends an effective date of 1 January 2009 for all of the amendments, with earlier application permitted from the date that the amendments are published. This effective date is consistent with that proposed generally for the annual improvements project. Additionally, this effective date will provide constituents with the necessary lead time to process the amendments within their legislative environments.

18. Does the Board agree that the effective date for all of the amendments should be 1 January 2009, with earlier application permitted?