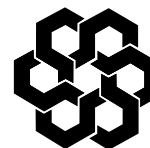

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International Accounting Standards Board

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

IASB Meeting:	**12 March 2008, London (Agenda Paper 5)**
Project:	**IFRS 1: First-time Adoption of IFRSs**

Introduction

1. IFRS 1, *First-time Adoption of International Financial Reporting Standards*, was put in place in June 2003, "to ensure that an entity's first IFRS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:

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

    b. provides a suitable starting point for accounting under International Financial Reporting Standards (IFRSs); and

    c. can be generated at a cost that does not exceed the benefits to users." [IFRS 1, paragraph 1, Objective]

    Since then, IFRS 1 has been updated as additional IFRSs have been implemented. However, it has not been updated to consider new challenges that might be faced by jurisdictions that are adopting IFRSs since the first wave of IFRS adopters. These

jurisdictions include Brazil, Canada, China, India, Israel, South Korea and ultimately, it is hoped, the United States.

2. This Agenda Paper is the result of consultations by the Canadian Accounting Standards Board (AcSB) staff with Canadian constituents preparing to adopt IFRSs in 2011, as well as consultation with other jurisdictions expecting to adopt IFRSs in the near future. It incorporates the results of a request for comment issued by AcSB staff to Canadian constituents and the international offices of the large accounting firms.

3. Also, the IASB has received directly a submission from the Canadian oil and gas industry. This Agenda Paper incorporates an evaluation of that request, a copy of which is appended to this Agenda Paper for convenience.

4. The AcSB staff consultation identified a number of requests for modification of IFRS 1. However, this agenda paper brings forward to the IASB only those issues that the AcSB staff considers to have merit. In assessing whether suggestions have sufficient merit to be brought forward to the IASB the AcSB staff have consulted with, and taken into account the views of, the members of the AcSB and its IFRS Advisory Committee.

5. The AcSB staff requests that the IASB discuss the issues raised in this paper, with a view to, if the IASB considers appropriate, developing an exposure draft of proposed changes to IFRS 1, in a relatively short time-frame. The short time-frame is a result of the desire for the issues raised to be dealt with in sufficient time to be useful for the changeovers to IFRSs in the next few years.

6. AcSB staff have evaluated the issues identified by reference to principles underlying IFRS 1. This paper proposes several principle-based amendments to IFRS 1. These are analysed in the following categories, which are presented in no particular order:

   a. Derecognition of financial assets and financial liabilities—Proposal to replace fixed date in IFRS 1 (January 1, 2004) with date of transition to IFRSs

   b. Proposal to introduce a principle precluding reassessment of prior accounting when that prior accounting permitted prospective application in the same manner as IFRSs

c. Proposal to introduce a principle prohibiting retrospective restatement of fair values

d. Analysis of oil and gas industry issues

7. As a result of uncertainty regarding the application of IFRSs to some rate-regulated assets and liabilities, representatives of that industry are considering the possible need for amendments to IFRS 1—in particular, to deal with practical difficulties associated with derecognizing previously capitalized allowances for equity funds used during construction. The insurance industry has also identified some potential issues relating to the separation of deposit and insurance contracts in accordance with IFRS 1. At this time, neither the rate-regulation nor insurance issues have been fully researched. AcSB staff plan to evaluate them as soon as possible, and, if considered appropriate, present them to the IASB at a future date.

Analysis

Derecognition of Financial Assets and Financial Liabilities—Proposal to replace fixed date in IFRS 1 (January 1, 2004) with Date of Transition to IFRSs

Issue

8. IFRS 1 provides an exception from full retrospective application of the requirements for derecognition of financial assets and financial liabilities in IAS 39, *Financial Instruments: Recognition and Measurement*. It requires these IAS 39 requirements to be applied prospectively by first-time adopters for transactions occurring on or after January 1, 2004. [IFRS 1.27]

9. Originally, this transition date had been January 1, 2001. However, the IASB amended the date when it completed revisions to IAS 39 in December 2003. Paragraph BC 21 of the Basis for Conclusions for IFRS 1 states the Board's reasons for the transitional provisions in IFRS 1 as follows:

> "(a) The omission of material assets or liabilities would undermine the understandability, relevance, reliability and comparability of an entity's financial statements. Many of the transactions under discussion are large and will have effects for many years.

(b) Such an exemption would be inconsistent with the June 2002 Exposure Draft of improvements to IAS 39.
(c) The Board's primary objective is to achieve comparability over time within an entity's first IFRS financial statements. Prospective application by a first-time adopter would conflict with that primary objective, even if prospective application were available to entities already applying IFRSs.
(d) Although a new IFRS may have unforeseen consequences if another party uses financial statements to monitor compliance with a contract or agreement, that possibility does not justify prospective application (paragraph BC13(a))."

Nevertheless, as noted in paragraph BC22A:

> "The Board decided to retain the transition requirements as set out in IFRS 1, for the reasons given in paragraph BC20 (sic). However, the Board amended the date from which prospective application was required to transactions that occur on or after 1 January 2004 in order to overcome the practical difficulties of restating transactions that had been derecognised before that date."

10. The requirements for derecognition of financial assets in IAS 39 are quite different from those in many of the jurisdictions likely to adopt IFRSs in the future. In particular, they differ significantly from those presently in Canadian and US GAAP. As time passes, the transition date of January 1, 2004 becomes more remote from the date of IFRS adoption and, as a result, many more derecognition transactions occurring between January 1, 2004 and the date of transition to IFRSs are likely to require retrospective restatement, with accompanying practical difficulties. For example, it would be very difficult to restate financial statements for the effects of retrospective application to revolving securitisation structures. In addition, retrospective restatement is likely to involve difficulties related to retrospective determination of fair values, discussed in our third proposal.

AcSB Staff Analysis

11. One alternative for addressing the practical difficulties of application to transactions occurring on or after January 1, 2004 is to revise the exception in IFRS 1 to refer to transactions that occurred on or after "the date of transition to IFRSs." For many entities adopting IFRSs in Europe, and elsewhere, this date would have been January 1, 2004. However, as other jurisdictions adopt IFRSs this date would move forward—in the case of IFRS adoption for years beginning on or after January 1, 2011 this date would be

January 1, 2010. This result is more consistent with the objective of creating a more principle-based standard.

12. [Paragraph omitted from Observer Notes.]

Recommendation

13. [Sentences omitted from Observer Notes.] AcSB staff recommends that the exception in IFRS 1 be revised to refer to transactions that occurred prior to "the date of transition to IFRSs." This would address the transitional issues of countries whose transition date to IFRSs was not January 1, 2004. In addition, it would create a more principle-based transitional provision.

14. This could be accomplished by the following amendment to IFRS 1:

> "27 Except as permitted by paragraph 27A, a first-time adopter shall apply the derecognition requirements in IAS 39 prospectively for transactions occurring on or after the date of transition to IFRSs~~1 January 2004~~. In other words, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities under its previous GAAP as a result of a transaction that occurred before the date of transition to IFRSs~~1 January 2004~~, it shall not recognise those assets and liabilities under IFRSs (unless they qualify for recognition as a result of a later transaction or event)."

Proposal to Introduce a Principle Precluding Reassessment of Prior Accounting when that Prior Accounting Permitted Prospective Application in the Same Manner as IFRSs

Issue

15. As countries position themselves to adopt IFRSs, an important decision is whether to make a one-time complete changeover to ("big bang") or to gradually phase-in IFRSs. In many cases, the approach is likely to be a combination of the two.

16. Under a phase-in approach, individual IFRSs will be incorporated into national standards before entities are able to claim full compliance with IFRSs. Those standards might require, or permit, transitional provisions identical to those in the equivalent IFRS, which result in prior accounting for specified assets and liabilities being grand-fathered

(prospective application). Furthermore, the standard might then require reassessment of that accounting only on occurrence of a specified "triggering event."

17. For example, IAS 17, *Leases*, requires an entity to distinguish between a finance and an operating lease as at the date it first entered into the lease contract, without reclassifying subsequently.[1] Further, the transitional provisions of IAS 17, permit, if the Standard is not retrospectively applied, the balance of any pre-existing finance lease to be deemed to have been properly determined by the lessor and to be accounted for thereafter in accordance with the provisions of IAS 17.[2] Consider a jurisdiction that adopts IAS 17 in its entirety in, say, 2008, but does not adopt IFRSs fully until 2011 (with a transition date of January 1, 2010). Assume that an entity in this jurisdiction enters into a lease contract on April 15, 2006, classified as a finance lease, and on adopting the national equivalent of IAS 17 in 2008 uses the transitional provision. On adoption of IFRSs in full, IFRS 1 would require the entity to retrospectively reassess the accounting for this lease (that is, as at April 15, 2006), even though it adopted a transitional provision in 2008 identical to that in IFRSs.

18. Other examples of similar circumstances include transitional provisions of IFRSs that provide relief from re-recognising previously derecognised financial liabilities [IAS 39] and from determining whether an arrangement contains a lease [IFRIC 4] as of specified dates. In each of these cases, even though an identical national standard might result in accounting identical to that in accordance with IFRSs, but at a different transition date, IFRS 1 would require an entity to reassess that accounting retrospectively (either partially[3] or fully) on adopting IFRSs for the first time.

19. The principle at issue here is whether the first-time adoption of full IFRSs should result in reassessment of accounting policies for which the accounting in accordance with previous GAAP was identical to that which would have been the case in accordance with IFRSs, other than the effective date of application of that accounting. If the answer is "yes," it could require reassessments even though there has been no triggering event, thus entailing

[1] See IAS 17, Leases, paragraph 13.
[2] See IAS 17, Leases, paragraphs 67-68.
[3] Some requirements of IFRS 1 permit retrospective application only as far back as a specified date.

additional costs, with no obvious benefits. In addition, that might prove to be a disincentive to countries adopting individual IFRSs prior to full adoption of the entire body of IFRSs.

AcSB Staff Analysis

20. AcSB staff think that reassessments of accounting policies in the circumstances described above are likely to become more prevalent as more jurisdictions adopt individual IFRSs prior to full adoption of the entire set of IFRSs. AcSB staff think that the cost of restating accounting on full adoption of IFRSs, when that accounting would have been the same other than the effective date at which it was applied under the equivalent national standards, is unlikely to be of sufficient benefit to justify the restatement. It would seem unfortunate if jurisdictions that are not yet able to adopt IFRSs fully, but can adopt individual IFRSs, would then be penalized on the eventual adoption of full IFRSs by requiring reassessments of circumstances previously accounted for in the same manner (albeit at a different date) as would an entity that had adopted IFRSs in full.

Recommendation

21. AcSB staff recommends that IFRS 1 be modified so that entities are prohibited from re-assessing, at the transition date to IFRSs, prior accounting when that prior accounting permitted prospective application in the same manner as IFRSs; the only difference being the effective date from which that accounting was applied.

22. One consideration is whether to ‘prohibit’ or ‘permit’ the re-evaluation of these items at the transition date to IFRSs. Although permitting re-evaluation would allow an entity to make a ‘fresh-start,’ regardless of what its previous accounting had been, this could result in inconsistency of application within a jurisdiction. Thus, AcSB staff recommends that the re-evaluation be ‘prohibited,’ in order to maintain consistency of application.

23. This could be accomplished by introducing the following principle into IFRS 1:

> “This IFRS prohibits a first-time adopter from reassessing, at the transition date to IFRSs, prior accounting when that prior accounting permitted prospective application in the same manner as IFRSs; the only difference being the effective date from which that accounting was applied.”

Proposal to Introduce a Principle Prohibiting Retrospective Restatement of Fair Values

Issue

24. In some circumstances, first time adoption of IFRSs requires entities to retrospectively determine fair values. This means that entities must use hindsight in order to determine fair values for some past transactions when initially adopting IFRSs. This appears to contradict a fundamental principle underlying IFRS 1 that states, "There is a danger of abuse if retrospective application would require judgements by management about past conditions after the outcome of a particular transaction is already known. The IFRS prohibits retrospective application in *some areas* where this could occur." [IFRS 1.BC.12(b)] (emphasis added)

AcSB Staff Analysis

25. The following two paragraphs include examples of where this issue arises.

26. Firstly, an entity might have bifurcated its convertible debt into liability and equity components as required by IAS 32, but its measurement methodology might differ from that in IAS 32. For example, IAS 32 requires an entity to measure the liability component of a compound instrument on initial recognition by measuring any financial asset or financial liability components at fair value and applying the residual amount to equity. However, a jurisdiction with standards corresponding to IAS 32 could permit an additional option, in accordance with its national GAAP.[4] IFRS 1 would require an entity to retrospectively restate its measurement amount on transition to IFRSs if, in accordance with prior national GAAP, it had chosen a measurement alternative that is not permitted by IFRSs. This restatement would require the retrospective determination of fair values for transactions that have already occurred.

27. Secondly, IFRS 1 could require the retrospective calculation of fair values for share-based payment transactions. In accordance with IFRS 1, an entity has the option not to apply

[4] Corresponding Canadian standards were developed jointly with the International Accounting Standards Committee, but continue to retain the additional option originally in IAS 32—that is, the option to use the relative fair value method.

IFRS 2, *Share Based Payments*, retrospectively “to equity settled transactions granted on or before November 7, 2002” or “to equity instruments granted after November 7, 2002 and that vested before the date of transition;” and “to liabilities arising from share based payment transactions that were settled before the date of transition.” However, in other circumstances, the retrospective determination of fair values will be required.

Recommendation

28. The AcSB staff recommends that a principle be added to IFRS 1 prohibiting the retrospective restatement of fair values unless the fair value information was determined or was available as at the date IFRSs required the fair value to be determined. If fair values were not available, an entity would not restate those prior amounts and would continue to use its original carrying amounts. This would prevent the determination of fair values using hindsight and supports the basic principle, reflected both in IFRS 1 and in the transitional provisions of a number of other IFRSs, that “prohibits retrospective application of IFRSs in some areas, particularly where retrospective application would require judgements by management about past conditions after the outcome of a particular transaction is already known.”

29. It should be noted that this recommendation does not contemplate an exemption from requirements to determine fair value at the date of transition to IFRSs, nor does it apply to items that are continuously remeasured to fair value. In each of these cases, fair value would not be retrospectively determined, since entities would be expected to plan to determine fair values at the transition date or on an ongoing basis. The recommendation addresses only those circumstances in which IFRSs specify the use of fair value to determine the accounting at a date prior to the transition date.

30. This could be accomplished by introducing the following principle into IFRS 1:

> “This IFRS prohibits a first-time adopter from retrospectively determining fair values prior to the transition date, on initial adoption of IFRSs, if those fair values were not available at the date IFRSs required the fair value to be determined. If fair values were not available, an entity continues to use the original carrying amount of the asset or liability.”

Oil and Gas Industry Issues

Full Cost Accounting

Issue

31. The following issue was raised by the Canadian oil & gas industry with regard to preparing the opening IFRS balance sheet. A letter received from the industry is attached to this paper, as is a letter of support received from the AcSB.

32. Under full cost accounting, costs incurred during the exploration and evaluation phase are accounted for in a manner substantially consistent with IFRS 6, *Exploration for and Evaluation of Mineral Resources*. Once it is determined that the exploration has been successful, the accumulated costs are accounted for in a single cost centre for each country.[5] Development costs are included in this same cost centre. Accumulated costs for exploration properties on which reserves are not found are also included in this same cost centre. Within this cost centre there is no record kept of the costs of individual properties—the cost centre is a single accumulation of costs for the country. The amount in this cost centre is depreciated as a single amount, based on the reserves for the country. Impairment is also tested for the cost centre as a whole.

33. In accordance with IFRSs, oil & gas assets will be accounted for at a smaller unit of account than the country.[6] This causes a significant transition issue on the adoption of IFRSs—how to develop the opening balance sheet amount for each oil & gas asset (unit of account) given that the accounting records have not retained information at this level of detail.

AcSB Staff Analysis

34. The basic approach in IFRS 1 is to calculate the balance that would exist if the accounting had always been done in accordance with IFRSs. This would mean recreating the historical

[5] In North America the cost centre is defined as a country. Other jurisdictions have different definitions, but this does not affect the issue.

[6] The determination of the unit of account is a separate issue that is not addressed in this paper. Whatever the unit of account, it will be smaller than a country.

cost for each oil & gas asset since this information has not been kept in the accounting systems of full cost companies. For oil & gas assets purchased in a business combination or otherwise, the purchase price allocated to oil & gas reserves would have to be further allocated to the individual assets. Depreciation would also have to be calculated (on a unit of production basis) for each asset for each year, recognizing that the reserve base used for depreciation is not static. In many cases, particularly for older assets, this information may not be available. Where it is available the work effort and associated cost would be very high.

35. IFRS 1 permits an entity to measure an item of property, plant and equipment at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost at that date. The IFRS 1 Basis for Conclusions (paragraph BC 41) states that this is permitted, "to avoid excessive cost … if determining a cost-based measure under IFRSs would involve undue cost or effort." In the case of oil & gas assets, determining fair value is a complex process that requires the expertise of qualified valuators, usually from external consulting firms. Estimation of the volume of reserves and resources is itself a complex matter to which must be added the valuation process – and this would have to be done for each oil & gas asset. For companies with multiple oil & gas assets this alternative would not meet the intent of avoiding excessive cost. This alternative also may not be practical given the number of qualified valuators needed to estimate fair value for all full cost oil & gas companies within a narrow time frame.

36. While IFRS 1, rather than IAS 8, applies to changes in accounting policies on adoption of IFRSs, the concept of impracticality in IAS 8 may be relevant in considering this issue. IAS 8 makes an exception to the general requirement for retrospective application of a change in accounting policy when this would be impractical. The existing alternatives in IFRS 1 with respect to determining the initial balances for oil & gas assets by full cost companies would meet the IAS 8 definition of impractical, suggesting an alternative approach is justified.

37. Research by the Extractive Activities project team, presented to the IASB in June 2007, identified that users of oil & gas financial statements do not use the reported property, plant

and equipment numbers. The users primarily want to estimate the value of the company and use estimated future cash flows to do so. Historical cost amounts are not useful for this purpose for extractive industry companies. While using fair value as a deemed cost may seem more relevant, the Extractive Activities project survey found that analysts would generally not use a company-supplied fair value because of concerns that the assumptions used would be different to those of the analyst. Even if the users did find fair value at the date of transition to IFRSs to be relevant at that date, it would have no more relevance than historical cost in subsequent years.

38. Consequently, whether the balance sheet amount for oil & gas assets is based on a reconstruction of the historical costs of each asset or on their fair values at a point in time, users will not find this to be of significant value. Both of the permitted approaches in IFRS 1 would require significant cost and effort while resulting in little benefit and this would seem to be inconsistent with the direction expressed in paragraph BC 41 of IFRS 1 of avoiding excessive cost.

39. Oil & gas companies face many other issues in adopting IFRSs. Requiring companies to undertake a major work effort to determine the carrying amounts for oil & gas assets at the date of transition may also have an opportunity cost in that it may reduce the resources available to address other issues in areas that are more relevant to users.

40. It might be questioned why this issue is being raised now. Many countries have already adopted IFRSs and some of these countries have oil & gas companies. Did they not face similar difficulties?

41. In AcSB staff's view there are two reasons why this issue is being raised at this time. Firstly, there is a critical mass issue. Canadian public oil & gas companies represent 50% of the public oil & gas companies in the world and they essentially all use the full cost method. US companies are the other major group of full cost companies. While there are certainly companies that use the full cost method in countries that have adopted IFRSs, it is a relatively small number. Secondly, the nature of the oil and gas reservoirs in North America differs from the typical reservoir elsewhere in the world. North American reservoirs tend to be small with many low productivity wells. As a consequence, many

companies participate in wells in a significant number of different fields. In contrast, reservoirs in other countries are normally significantly larger and have higher productivity wells—and companies are more likely to participate in a much more limited number of fields. Those companies participating in a large number of fields tend to be multinational companies and to use the successful efforts method rather than the full cost method.

Recommendation

42. If the IASB agrees that the current provisions in IFRS 1 are impracticable and should not be required for oil & gas companies currently using the full cost method, the question becomes how should the opening balance sheet be determined?

43. The industry has proposed that the existing carrying amount for each cost centre (i.e., country) be allocated to the oil & gas assets within that cost centre. To ensure individual assets are not overstated, the allocated amounts at the date of transition to IFRSs would be subject to an impairment test. The allocation would be required to be on a systematic basis, using either reserve volumes or related values.

44. The allocation would exclude properties still in the exploration and evaluation phase, which will be accounted for in accordance with IFRS 6. Costs for these properties are separately identifiable under the Canadian standard on full cost accounting as they have not yet been transferred into the single cost centre for each country.

45. This is a pragmatic proposal that permits the determination of a deemed cost for each oil & gas asset using information that is readily available and without undue cost or effort.

46. The deemed cost for an individual oil & gas asset would clearly not reflect the depreciated cost of the asset that would have resulted from applying IFRSs in all prior periods, since it is based on an allocation of pooled amounts. The deemed cost would also include amounts that would not have been capitalized in accordance with IFRSs, such as some overhead costs, costs incurred before the entity has obtained legal rights to explore a specific area (and that are not capable of capitalisation in accordance with IAS 38) and, most significantly, unsuccessful exploration costs that have been included in the full cost pool.

As already noted, the identity of these costs for past years has not been retained in the accounting system—they are subsumed in the single carrying amount of the full cost pool for the cost centre. (Since these costs have been included in the full cost pool they will have been partly depreciated and included in any impairment write-down.)

47. The impairment test applied to the deemed cost of each oil & gas asset would ensure that no individual asset has a carrying amount greater than its recoverable amount.

48. In the AcSB staff's view the impracticality of applying current IFRS 1, combined with the limited use of the balance sheet amounts for oil & gas assets by financial statement users outweighs the concerns over the accuracy of the deemed cost.

49. The AcSB staff therefore recommends that the IASB amend IFRS 1 to permit oil & gas companies that previously used the full cost accounting method to determine the carrying amount of individual oil & gas assets at the date of transition by allocating the existing carrying amount of their full cost pools to the individual assets. (The costs of properties still in the exploration and evaluation phase, which will be accounted for in accordance with IFRS 6, would be separately identified and excluded from the allocation.)

50. Proposed wording to implement this recommendation is included in paragraph 56, below, which also addresses a further issue.

Changes in Existing Decommissioning, Restoration and Similar Liabilities included in the Cost of Property, Plant and Equipment

Issue

51. IFRS 1, paragraph 25E, provides an exemption for the cost of decommissioning liabilities included in the cost of property, plant and equipment. To take advantage of this exemption the entity must, (a) measure the liability at the date of transition in accordance with IAS 37, (b) estimate the amount that would have been included in the cost of the related asset when the liability first arose by discounting the liability, and (c) calculate the accumulated depreciation on that amount at the date of transition to IFRSs.

52. Oil & gas companies often have significant decommissioning liabilities related to environmental clean up and may also have other decommissioning liabilities. To the extent that such liabilities have been recognized in the financial statements (as is required under both Canadian and US GAAP), the amount of the liability may be different than under IAS 37.

53. The IFRS 1 approach requires identifying when the liability arose, which may be over several years for an oil & gas property, and a number of calculations including accumulated depreciation using unit of production based on reserves that change over time.

AcSB Staff Analysis

54. If the IASB accepts the recommendation to permit an allocation of the amount of the full cost pool to individual oil & gas assets to determine the deemed cost of those assets at the date of transition to IFRSs, then AcSB staff recommends a similar simplified approach to adjusting the asset as a result of recording the decommissioning liabilities on an IAS 37 basis.

Recommendation

55. The AcSB staff recommends that the difference between the amount recognized for a decommissioning liability under previous GAAP and the IAS 37 liability amount be added to or subtracted from the full cost pool before that amount is allocated to individual oil & gas assets.

56. Accordingly, to implement the recommendations relating to the oil and gas industry set out above, the AcSB staff propose the following amendments to IFRS 1:

> “19A An entity may elect to measure oil and gas assets at the date of transition to IFRSs on the following basis:
>
> (a) exploration and evaluation assets at cost, less any impairment, determined in accordance with IFRS 6, *Exploration for and Evaluation of Mineral Resources*; and
>
> (b) other assets (i.e. those in the development or production phases) at the amount determined under the entity's previous GAAP, first adjusted by the difference between the decommissioning, restoration or similar liability as measured in

accordance with IAS 37 and that recognized under the entity's previous GAAP. The adjusted amount is then allocated on a pro rata basis using reserve volumes or related values as of that date. An entity making this election does not apply paragraph 25E.

The deemed cost for each oil and gas asset determined as above shall be tested for impairment at the date of transition to IFRSs. For purposes of this paragraph, oil and gas assets comprise only those used in the exploration, evaluation, development or production of oil and gas.