



Project **Annual Improvement**

Topic **Amendments to IFRS3 and IAS27 - First Time Adopters**

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## Introduction

1. The revised IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* permit early application of the standards but limit it to the beginning of an annual reporting period that begins on or after 30 June 2007. Some constituents expressed concerns that this requirement might be inconsistent with the requirements in IFRS 1 for a first-time adopter that prepares its first IFRS financial statements covering annual periods both before and after 30 June 2007.

*Issue: Should the IASB remove the date limitation on early application of IFRS 3 and IAS 27 to be consistent with the requirements in IFRS 1?*

## Staff recommendation

2. The staff recommends that the Board:
  - (a) add this issue to the annual improvements project; and
  - (b) propose removing the date limitation on early application of IFRS 3 and IAS 27 (as issued in 2008).

## Background

3. IFRS 3.64 prohibits an entity from applying the revised standards earlier than the beginning of an annual reporting period that begins on or after 30 June 2007. This limitation extends to IAS 27 because an entity has to adopt both standards at the same time.
  4. IFRS 1.7 requires, upon first-time adoption, an entity to use the same accounting policies in its opening IFRS statement of financial position and throughout all
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This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

periods presented in its first IFRS financial statements. Those accounting policies must comply with each IFRS effective at the end of the first IFRS reporting period.

5. Some constituents argue that the requirements in IFRS 3/IAS 27 and IFRS 1 are inconsistent when an entity prepares its first IFRS financial statements that cover annual periods both before and after 30 June 2007.
6. To illustrate, assume that an entity prepares its first IFRS financial statements as of 31 December 2009. The reporting period is the calendar year. The entity is required by law to present comparatives for two years (2007 and 2008). Some constituents ask whether an entity may account for a business combination or a transaction with non-controlling interests in 2007 in accordance with the revised standards even though that reporting period began before 30 June 2009.

### Staff analysis

7. We agree with constituents that the requirements in IFRS 3 and IFRS 1 are inconsistent. We believe that to enhance comparability a first-time adopter should use the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first financial statements. Therefore, we recommend that the Board exempt the first-time adopter from the date limitation in IFRS 3.64.

#### Question to the Board

Does the Board agree to propose exemption in IFRS 1 so that a first time adopter can apply the revised IFRS 3 and IAS 27 earlier than for an annual reporting period that begins on or after 30 June 2007?

## Appendix

A1. Draft of the proposed amendment to IFRS 3 *Business Combinations*

### **IFRS 1 *First-time Adoption of International Financial Reporting Standards***

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In IFRS 1 Appendix C paragraph C1 is amended (added text is underlined).

- C1 A first-time adopter may elect not to apply IFRS 3 *Business Combinations* retrospectively to past business combinations (business combinations that occurred before the date of transition to IFRSs). However, if a first-time adopter restates any business combination to comply with IFRS 3, it shall restate all later business combinations and shall also apply IAS 27 (as amended in 2008) from that same date, notwithstanding the limitation on earlier application in paragraph 64 of IFRS 3. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 20X6, it shall restate all business combinations that occurred between 30 June 20X6 and the date of transition to IFRSs, and it shall also apply IAS 27 (amended 2008) from 30 June 20X6.

### **Basis for Conclusions**

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*This Basis for Conclusions accompanies, but is not part of, the proposed amendments.*

- BC1 Paragraph 64 of the revised IFRS 3 *Business Combinations* states that an entity could apply that standard earlier only at the beginning of an annual reporting period that begins on or after 30 June 2007. The Board observed that the requirement was inconsistent with paragraph 7 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* which requires that an entity uses the same accounting policies in its opening IFRS statement and throughout all periods presented in its first IFRS financial statements. Therefore, the Board proposes amending IFRS 1 to grant the exemption to the first-time adopter for the earlier application of the IFRS 3 as part of its annual improvements project.