Additional Exemptions for First-time Adopters

Project **Proposed amendments to IFRS 1**

Topic **Rate-Regulated Operations, Leases and Other Issues**

Objective of this paper

1. The IASB's September 2008 exposure draft *Additional Exemptions for First-time Adopters: Proposed Amendments to IFRS 1* proposed amendments to IFRS 1 to address potential challenges for jurisdictions adopting IFRSs in the near future. In particular, the exposure draft requested comments on four areas of concern:

   (a) oil and gas assets;

   (b) operations subject to rate regulation;

   (c) determining whether an arrangement contains a lease; and

   (d) assessments under previous GAAP before the date of transition to IFRSs.

2. Comments received relating to oil and gas assets were discussed at the April 2009 IASB meeting. The objective of the discussion at this meeting is to consider the remaining comments received in response to the exposure draft and agree on amendments to be made to IFRS 1.

Summary

3. This Agenda Paper summarises the overall profile of responses received (see paragraphs 9 to 11). It evaluates some overall matters arising (see paragraphs 12 to 15) and then analyses comments on each of the remaining three areas of concern noted in paragraph 1 (see paragraphs 16 to 43). In each case, staff recommendations regarding amendments to IFRS 1 are provided. These are summarized as follows:

Operations subject to rate regulation

4. The following recommendations regarding operations subject to rate regulation are the actions the staff would recommend in the absence of completion of the current IASB work on rate-regulated activities. Staff recommend that they not be finalised pending deliberations on rate-regulated activities. Staff recommend that they be implemented only if that exposure draft does not proceed. The comments on the IFRS 1 exposure draft should be taken into account in developing any IFRS 1 amendments to be included in the exposure draft on rate-regulated activities.

   (a) Extend the scope of the proposals to include qualifying items classified as an intangible asset (see paragraph 22).

   (b) Amend the definition of operations subject to rate regulation included in paragraph 19B to reflect the current thinking of the Board's separate project on rate-regulated activities on which entities should be within the scope of an eventual standard on this topic (see paragraph 23).

   (c) Remove the requirement for an entity to demonstrate the impracticability of both retrospective restatement and fair value as deemed cost before being permitted to use carrying amount as deemed cost at the date of transition to IFRSs (see paragraphs 24-25).

   (d) Add a sentence to paragraph D23 to clarify that an entity uses the proposed exemption or the borrowing costs exemption, not both (see paragraph 27).

Determining whether an arrangement contains a lease (IFRIC 4)

5. Extend the proposals to allow no reassessment of the determination when previous GAAP the same as IFRIC 4 was applied prospectively rather than retrospectively. Essentially, this would result in all leases being reassessed once, either in accordance with previous GAAP, or at the transition date. At the same time, staff recommend clarifying that the determination applies on an arrangement-by-arrangement basis (see paragraphs 32-33).

6. Explain that a determination under previous GAAP should have been in accordance with requirements that would give the same result as IAS 17. In doing this, staff recommend that the words refer consistently to *same determination* (see paragraph 34).

Other issues

7. No other amendments to IFRS 1 are proposed. However, the following issues are identified for further consideration.

   (a) A question as to whether any relief should be provided when a jurisdiction's complete (or almost complete) body of GAAP is already essentially IFRS compliant is to be analysed in an Agenda Paper for a future meeting (see paragraph 40).

   (b) An issue relating to re-designation of financial instrument classifications after the date of transition (see paragraph 42(a)).

   (c) Issues regarding IFRS 1 requirements for derecognition and day 1 gains, which staff recommend be considered in the context of any modifications to IFRS 1 as a result of implementing standards on derecognition and fair value measurement guidance, respectively (see paragraph 42(b)).

   (d) Questions regarding the clarity of the transition provisions in IAS 23 *Borrowing Costs* which staff recommend be considered in the annual improvements project (see paragraph 43).

8. The exposure draft proposals, marked up to incorporate staff's recommendations for changes (except those pertaining to rate-regulated operations), are provided in Appendix A. A full list of issues raised and staff's analysis is provided in Appendix B. At the conclusion of the discussion, staff recommend proceeding to ballot amendments to IFRS 1 dealing with oil and gas assets and determining whether an arrangement contains a lease.

Overall profile of responses

9. The exposure draft comment deadline was January 23, 2009. 96 responses were received by the date this agenda paper was prepared.

10. Table 1 summarizes the profile of respondents' backgrounds, as well as the aspects of the exposure draft that they chose to comment on.

Table 1	Total responding	Number of respondents commenting on:		
Classification		Oil and gas	Rate regulation	Other
Preparers—O&G	36	35	2	5
Preparers—RRO	22	2	21	10
Preparers—other	3	2	2	3
Standard Setter	12	11	11	12
Accounting Body	9	7	7	8
Accounting Firm	8	8	8	8
Rate Regulator	1	—	1	—
Securities Regulator	1	1	1	1
User	1	1	—	—
Public Sector	2	—	2	1
Individual	1	1	—	—
TOTALS	96	68	55	48

11. Table 2 summarizes the geographical profile of respondents, as well as the aspects of the exposure draft that they chose to comment on.

Table 2	Total responding	Number of respondents commenting on:		
Classification		Oil and gas	Rate regulation	Other
International	10	10	10	10
Canada	61	40	26	19
United States	4	1	3	—
Europe (incl. Germany, Italy, Netherlands, Norway, Russia, Sweden, Switzerland, UK)	11	9	9	10
Asia (incl. Hong Kong, Korea, Malaysia, Pakistan, Singapore, UAE)	6	4	3	5
Australia, New Zealand	3	3	3	3
Africa	1	1	1	1
TOTALS	96	68	55	48

Overall matters arising

12. A few respondents commented on matters relating to the proposals as a whole. These respondents noted the following overall concerns:

(a) Entities that have already adopted IFRSs have dealt with similar issues without the need for these exemptions.

(b) The proposed amendments will reduce comparability between entities that already apply IFRSs and entities that adopt IFRSs in the future. Given that the number of jurisdictions that have already adopted IFRSs is greater than the number of jurisdictions that are likely to adopt IFRSs in the future, it is not desirable to add additional exemptions for first-time adopters of IFRSs.

(c) Concern about the frequency with which IFRS 1 is amended to address jurisdiction-specific or industry-specific issues.

(d) Suggestion that with the growing list of exemptions there is a lack of coherence and that it would be useful to develop a set of principles to evaluate proposed exemptions.

13. Staff note that the different circumstances related to entities in countries currently adopting IFRSs were discussed by the Board as part of approving the exposure draft. Also, IFRS 1, paragraph BC10, states,

> "it is more important to achieve comparability over time within a first-time adopter's first IFRS financial statements and between different entities adopting IFRSs for the first time at a given date: achieving comparability between first-time adopters and entities that already apply IFRSs is a secondary objective."

14. Staff think that the re-formatting of IFRS 1 should have helped to address the comment about the coherence of the standard. Also, staff think that it is inevitable that as IFRSs change, and additional jurisdictions adopt IFRSs, new circumstances will arise that will require amendments to IFRS 1. Each of these circumstances needs to, and will, be carefully evaluated by the IASB, with changes made only when warranted.

15. In the case of the changes proposed in the exposure draft, staff think that the case for change is not overridden by these general concerns.

Operations subject to rate regulation

16. The following analysis considers the response to the IFRS 1 proposals independently of the current IASB work on rate-regulated activities. Staff recommend that the actions proposed in this analysis not be finalised pending deliberations on rate-regulated activities. Staff recommend that these recommendations be implemented only if that exposure draft does not proceed. Otherwise, the comments on this exposure draft should be taken into account in

developing any IFRS 1 amendments to be included in the exposure draft on rate-regulated activities.

The exposure draft proposal

17. The exposure draft proposed that entities with operations subject to rate regulation could elect to use the carrying amount of items of property, plant and equipment held, or previously held, for use in such operations as their deemed cost at the date of transition to IFRSs if both retrospective restatement and using fair value as deemed cost are impracticable (as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).

Analysis of responses

18. Of the 96 respondents to the exposure draft, 55 commented on this issue. 13 respondents (a large majority of which were non-Canadian) expressed unqualified support for the proposals. Another 38 agreed that relief should be provided for first-time adopters with operations subject to rate regulation, but had concerns about particular aspects of the proposed exemption. Only four respondents disagreed with the proposals. They thought insufficient justification had been provided for exempting entities with operations subject to rate regulation from the general principle that amounts not forming part of the cost of an asset in accordance with IFRSs should be expensed. Three of these respondents were of the view that retrospective restatement and fair value as deemed cost may be difficult and costly, but are not impracticable.

Scope

19. Two respondents suggested that any entity that has been using rate-regulated accounting should be able to apply the proposed exemption, regardless of whether it meets the definition of operations subject to rate regulation included in paragraph 19B. However, the Board intended that the relief be made available only to qualifying entities. Staff recommend no change in scope for this issue.

20. One respondent thought that the proposed exemption should also apply to other regulated operations where carrying amounts include imputed costs. Entities subject to volume regulation were given as an example. However, the respondent did not explain why such entities face a similar problem to rate-regulated entities as defined in terms of their ability to retrospectively restate or use the fair value as deemed cost election. Staff recommend no change in scope for this issue.

21. Four respondents suggested that the proposed exemption be reworded to also cover other variances between the carrying amount of property, plant and equipment as recorded under previous GAAP and depreciated cost under IFRSs (besides the ones created by differences in what qualifies for capitalisation under each GAAP). The primary example given was variances caused by a difference in depreciation methodologies used under each GAAP. Staff disagree with this recommendation. Expanding the scope in this manner would leave the proposed exemption too open ended. Staff recommend no change in scope for this issue.

22. Many Canadian respondents requested that the scope be extended to qualifying items previously classified as property, plant and equipment that were required to be reclassified as intangible assets as a result of a recent change in Canadian GAAP. Staff agree that the proposed exemption and supporting rationale apply equally to these items, and think that the transitional issue the proposed exemption is intended to address is broader than was originally envisaged. Staff propose dealing with the issue in a broader context by extending the scope of the proposed exemption to also include qualifying intangible assets, i.e., long-lived intangible assets with a carrying amount that similarly includes amounts that were determined under previous GAAP but do not qualify for capitalisation in accordance with IFRSs. If the Board agrees, a corresponding change will be required to the Basis for Conclusions.

Definition

23. One respondent thought the definition of operations subject to rate regulation included in paragraph 19B should be removed because it is better considered as part

of the Board's separate project on rate-regulated activities. Staff agree that, ideally, this definition should be decided as part of that separate project. However, should that project not result in an exposure draft and the recommendations made in this Agenda Paper be finalised, a definition is required in paragraph 19B in order to restrict the application of the proposed exemption to qualifying entities. Staff recommend not removing the definition, but do recommend amending it to reflect the current thinking in the Board's separate project on rate-regulated activities as to which entities should be within the scope of an eventual standard on this topic.

Impracticability

24. The aspect of the proposals commented on most often by respondents is the requirement for an entity to demonstrate the impracticability of both retrospective restatement and fair value as deemed cost before being permitted to use carrying amount as deemed cost at the date of transition to IFRSs. More than half of the respondents suggested removing this requirement. They noted that no such impracticability condition is attached to any of the existing elections in IFRS 1, or to the deemed cost election for oil and gas assets proposed in the exposure draft.

25. Respondents were concerned that the impracticability condition would severely limit the ability of entities to use the relief being proposed, because even if fair value cannot be determined in an active market it can often be estimated through valuation techniques (although the costs would be excessive). Respondents also found this requirement to be inconsistent with the Board's reason for providing the relief, ie the need to balance the cost and effort of complying with IFRS 1 with the objective of providing a suitable starting point for accounting in accordance with IFRSs. Staff agree and recommend that the requirement be removed. If the Board agrees, staff further recommend that the Basis for Conclusions be changed to reflect this decision.

Impairment testing

26. The issue raised most frequently by respondents after the impracticability issue has to do with the requirement to test 'each item' for which the proposed exemption is used for impairment at the date of transition to IFRSs. Respondents found this requirement to be significantly more onerous than the IAS 36 requirement to test only if impairment indicators are present, and noted the requirement to apply IAS 36 at the date of transition in any case. They were also concerned that paragraph 19B implies a necessity to test for impairment at a level lower than cash-generating unit. Staff note that the requirement to test for impairment was included to provide added assurance that an item's carrying amount provides a suitable starting point for accounting under IFRSs. Further, staff think that estimating future cash flows and, therefore, testing for impairment, should not be difficult in a rate-regulated environment, given the influence of the rate-setting process on those cash flows. Staff recommend no change to the proposals for this issue. Staff further recommend amending the Basis for Conclusions to explain that the Board intends that the required impairment testing be performed at the level specified in IAS 36, not one that is lower.

Interaction with borrowing costs exemption

27. A number of respondents requested guidance on the interaction of the proposed exemption with the borrowing costs exemption in paragraph D23. Staff recommend adding a sentence to paragraph D23 to clarify that an entity uses the proposed exemption or the borrowing costs exemption, not both.

Other

28. Respondents also raised concerns about the basis of application for the proposed exemption, and suggested the addition of a disclosure requirement similar to the one the Board recently approved for the deemed cost election for oil and gas assets. Staff recommend no change to the proposals in either case.

Question 1 – Operations subject to rate regulation

1. For the reasons outlined in the preceding paragraphs, the staff recommend:

(a) extending the scope of the exposure draft proposals to include qualifying items classified as an intangible asset;

(b) amending the definition of operations subject to rate regulation included in the proposals to reflect the current thinking of the Board's separate project on rate-regulated activities on which entities should be within the scope of an eventual standard on this topic;

(c) removing the requirement for an entity to demonstrate the impracticability of both retrospective restatement and fair value as deemed cost before being permitted to use the proposed exemption;

(d) adding a sentence to paragraph D23 to clarify that an entity uses the proposed exemption or the borrowing costs exemption, not both; and

(e) amending the Basis for Conclusions as necessary to reflect these decisions.

Staff further recommend amending the Basis for Conclusions to explain that the Board intends that the required impairment testing be performed at the level specified in IAS 36, not one that is lower.

Does the Board agree? If not, what change does the Board recommend?

Question 2 – Operations subject to rate regulation

2. For the reasons outlined in paragraph 16, staff recommend that the Board not finalise the actions summarised in Question 1 pending deliberations on its separate project on rate-regulated activities. Does the Board agree? If not, how does the Board wish to proceed?

Determining whether an arrangement contains a lease

The exposure draft proposal

29. The exposure draft proposed that if a first-time adopter made the same determination under previous GAAP as that required by IFRIC 4 *Determining whether an Arrangement contains a Lease* but at a date other than that required by IFRIC 4, the first-time adopter need not reassess that determination when it adopts IFRSs.

Analysis of responses

30. Of the 96 respondents to the exposure draft, 44 commented on this issue. 21 responses (the large majority of which were non-Canadian) expressed unqualified support for the proposals. Of the remaining 23 responses, only 2 disagreed. The remainder of the responses suggested changes to particular aspects of the proposals. These proposed changes are analysed in detail in Appendix B and summarised in paragraphs 31 to 43, below.

Overall disagreements

31. One respondent disagreeing with the proposals does so on the grounds of the general concerns discussed in paragraphs 12 to 15. The other thinks that it would not make much difference for an entity to go back in time and make adjustments. However, this respondent overlooks the point that to do so would require the entity to generate new fair value information, either from the inception of the arrangement, or at the date of transition.

Allow no reassessment when previous GAAP was applied prospectively rather than retrospectively

32. Several respondents suggest expanding the proposals to allow no reassessment when previous GAAP the same as IFRIC 4 was applied prospectively rather than retrospectively. Staff recommend amending the proposals to permit them to be applied in such circumstances. This would continue to result in all arrangements being assessed, either, (i) at the time of assessment under previous GAAP, or (ii) at the transition date, for those not assessed under previous GAAP because of a different transition provision. Only the timing of the assessment would differ from that required by IFRIC 4.

33. Several respondents also suggest clarifying that the determination applies on an arrangement-by-arrangement basis—that is, if some arrangements were assessed on a basis the same as IFRSs and others were not, assessment is required only for the

latter arrangements. Staff agree and recommend amending paragraph IG206 and BC13.

Question 3 – Reassessment when previous GAAP was applied prospectively rather than retrospectively
3. For the reasons outlined in the preceding paragraphs, the staff recommend extending the exposure draft proposals to allow no reassessment of the determination when previous GAAP the same as IFRIC 4 was applied prospectively rather than retrospectively. At the same time, staff recommend clarifying that the determination applies on an arrangement-by-arrangement basis Does the Board agree? If not, what does the Board recommend?

Determination under previous GAAP should have been in accordance with requirements that would result in the same determination as IAS 17

34. Several respondents suggest clarifications to the proposals to make clear that the expectation is that an IAS 17 equivalent was in place in previous GAAP. Furthermore, several respondents suggest clarifying that the words of the previous GAAP do not have to be identical—rather, only that the accounting effect was the same. Staff think that this was the intent of the proposal and propose to add words to paragraph D9 to explain that a determination under previous GAAP should have been in accordance with requirements that would give the same result as would be achieved in accordance with IAS 17, as well as IFRIC 4. Staff also recommend referring consistently to *same determination* throughout the proposals.

Question 4– Previous GAAP determination should result in same determination as would have resulted in accordance with IAS 17
4. For the reasons outlined in the preceding paragraph, the staff recommend amending paragraph D9 to explain that a determination under previous GAAP should have been in accordance with requirements that would give the same result as would be achieved in accordance with IAS 17. Staff also recommend referring consistently to *same determination* throughout the proposals. Does the Board agree? If not, what does the Board recommend?

Allow “grandfathering of local GAAP requirements

35. Several respondents suggest expanding the proposals to “grandfather” local GAAP or to “grandfather” previous transitional provisions. Staff think that this would

allow some arrangements not to be assessed in accordance with IFRIC 4 or equivalent criteria. Accordingly, staff do not support this proposal.

Clarify that if lease terms have changed a reassessment is required at transition date

36. A respondent suggests that the standard clarify that if lease terms have changed a reassessment is required at transition date. Staff think that this clarification is unnecessary, because if IFRIC 4 and IAS 17 equivalents were in place in previous GAAP, this would be required anyway.

Need for additional changes?

Question 5– Need for any additional changes?
5. For the reasons outlined in the paragraphs 31 and 35-36, the staff recommend that there is no need for any additional changes to the exposure draft proposals regarding determining whether an arrangement contains a lease. Does the Board agree? If not, what does the Board recommend?

Assessments under previous GAAP before the date of transition to IFRSs

The exposure draft proposal

37. The exposure draft noted that the Board considered whether to modify IFRS 1 so that entities need not reassess, at the date of transition to IFRSs, prior accounting if that prior accounting permitted the same prospective application as IFRSs with the only difference from IFRSs being the effective date from which that accounting was applied. In this regard, the Board noted that any such proposal must apply to *identical*, rather than *similar* accounting, because it would be too difficult to determine and enforce what constitutes a sufficient degree of similarity. The Board decided not to adopt such a modification because it concluded that the situation referred to in Question 4 (the IFRIC 4 situation) is the only one in which relief of this type is needed. Respondents were asked: Do you agree that the situation referred to in Question 4 is the only one in which additional relief of this type is needed? If not, in what other situations is relief necessary and why?

Analysis of Responses

38. Of the 96 respondents to the exposure draft, 31 commented on this issue. 21 responses agree that no additional amendments to IFRS 1 are needed to address circumstances when assessments have been made under previous GAAP identical to those under IFRSs. Four of those respondents emphasise that this type of relief should be provided only on a case-by-case basis and one specifically agrees that it is not appropriate to apply this kind of relief to *similar* accounting.

More general modification to IFRS 1

39. Three respondents request a more general modification to IFRSs. One also thinks that there might be other situations, but provides no examples. This alternative was rejected by the Board in developing the exposure draft and is supported by very few respondents with no new arguments raised. Furthermore, the Board decided that it is preferable that it should assess whether a situation warrants an amendment to IFRS 1. Staff recommend no change.

Complete body of GAAP essentially IFRS compliant

40. Two respondents raise a broader question as to whether any relief should be provided when a jurisdiction's complete (or almost complete) body of GAAP is already essentially IFRS compliant. This question is to be analyzed in a separate Agenda Paper for a future meeting.

Requirements the same as IFRS have been in place for three years before the date of transition

41. One respondent suggests that there should be an additional amendment to IFRS 1 to allow "grandfathering" when requirements the same as IFRS have been in place in a jurisdiction for three years before the date of transition. Staff note that this is a modification of the more general requirement some propose be included in IFRS 1. That proposal was rejected above. In addition, any fixed period prior to the date of transition can only be arbitrary.

Proposed additional changes to IFRS 1

42. Six respondents propose additional changes to IFRS 1. No additional amendments could be made without exposure. Therefore, the following discussion requests only an indication as to whether the IASB would like staff to pursue further analysis of the points raised, with a view to possible modifications at a future date.

(a) *Financial Instruments*—A respondent notes that an entity might have made a classification designation on initial recognition of a financial instrument in accordance with previous GAAP, but is required by IFRS 1 to re-designate that financial instrument at the date of transition if it wishes to continue the same accounting on transition to IFRSs. If the entity decides *after* its date of transition that it will adopt IFRSs it has missed the opportunity to designate such an instrument *at* the date of transition—even though it had previously designated the instrument under corresponding previous GAAP. This seems to be a valid concern. Do IASB members wish to pursue such a change?

(b) *Update fixed dates in IFRS 1*—A respondent raises a general concern about fixed dates in IFRS 1; in particular those relating to derecognition of financial assets and liabilities and to day 1 gains. The derecognition date was discussed by the IASB in developing the exposure draft and rejected, but it was decided to omit the reason from the Basis for Conclusions. This date is proposed to be superseded as a result of the IASB's current project on derecognition. However, this could result in a first-time adopter being required to restate back to January 1, 2004 for derecognition transactions if its date of transition to IFRSs is just before a new standard on derecognition comes into effect, but not needing to do so if its date of transition is very shortly afterwards. Staff recommend no immediate change to IFRS 1, but that this issue be considered in the context of any amendments to IFRS 1 to implement the proposed new IFRS on derecognition. The issue on Day 1 gains seems best considered in the context of any amendments to IFRS 1 to implement the proposed new IFRS on fair value measurements.

(c) *Proposals previously rejected*—A respondent proposes amendments to the IFRS 1 requirements regarding each of IAS 39/IFRS 4 and IFRIC 9. In each case these topics were discussed and rejected in developing the exposure draft. No new arguments have been raised.

(d) *IFRIC 12*—A respondent proposes amendments to the transitional provisions in IFRS 1 regarding IFRIC 12 but provides no new information to that considered in developing the necessary IFRS 1 amendments when IFRIC 12 was issued.

(e) *Standards under development*—A respondent proposes that when previous GAAP differs from an IFRS and the IFRS is under review by the IASB at the time of an organisation's adoption of IFRSs, an entity be granted exemption from adopting that IFRS until the review of that standard is finalised by the IASB. Staff consider this proposal to be inappropriate and unworkable.

43. A respondent highlights issues relating to the transitional provisions in IAS 23 *Borrowing Costs*. We propose that these matters be considered by the Annual Improvements project team.

Question 6– Assessments under previous GAAP before the date of transition to IFRSs
6. The staff recommend no additional changes to the exposure draft regarding assessments under previous GAAP before the date of transition to IFRSs. However, the staff recommend further considering: (a) A question as to whether any relief should be provided when a jurisdiction's complete (or almost complete) body of GAAP is already essentially IFRS-compliant—to be analysed in an Agenda Paper for a future meeting (see paragraph 40); (b) An issue relating to re-designation of financial instrument classifications after the date of transition (see paragraph 42(a)); (c) Issues regarding IFRS 1 requirements for derecognition and for day 1 gains—in the context of any modifications to IFRS 1 as a result of implementing standards on derecognition and fair value measurement guidance, respectively (see paragraph 42(b)); (d) Questions regarding the clarity of the transition provisions in IAS 23 *Borrowing Costs* — in the annual improvements project (see paragraph 43).

Does the Board agree with the proposed course of action? If not, what does the Board recommend?

Conclusion

44. The Board has now considered all matters arising as a result of comments on the exposure draft *Additional Exemptions for First-time Adopters: Proposed Amendments to IFRS*. As explained earlier in this paper, the issues relating to oil and gas assets were discussed in April 2009. Staff recommend that recommendations relating to rate-regulated operations be deferred, pending the completion of discussions relating to development of the exposure draft on rate-regulated activities. Staff recommend that the IASB proceed to ballot all the other amendments to IFRS 1. Staff recommend an effective date of annual periods beginning on or after 1 January 2010, with earlier application permitted.

Question 7– Amendments to IFRS 1
7. The staff recommend proceeding to ballot amendments to IFRS 1 dealing with oil and gas assets and determining whether an arrangement contains a lease, with an effective date of annual periods beginning on or after 1 January 2010. Does the Board agree? Do any Board members intend to dissent to the final standard?

APPENDIX A: Proposed amendments to the exposure draft[1] proposals

This Appendix does not include proposed changes relating to rate-regulated operations because it is proposed that those amendments be deferred pending completion of the exposure draft on rate-regulated activities.

The exposure draft proposed to add a third sentence to paragraph D9. Staff recommendations for additional changes to paragraph D9 are shown below (new text is underlined and deleted text is struck through).

Leases

D9[2] A first-time adopter may apply the transitional provisions in IFRIC 4 *Determining whether an Arrangement contains a Lease*. Therefore, a first-time adopter may determine whether an arrangement existing at the date of transition to IFRSs contains a lease on the basis of facts and circumstances existing at that date. If a first-time adopter made the same determination <u>of whether an arrangement contained a lease</u> under previous GAAP as that required by IFRIC 4 but at a date other than that required by IFRIC 4, the first-time adopter need not reassess that determination when it adopts IFRSs. <u>For an entity to have made the same determination under previous GAAP, that determination of whether the arrangement contained a lease should then have been applied in accordance with requirements that give the same result as IAS 17, *Leases*.</u>

[1] In November 2008 the IASB issued a restructured version of IFRS 1. The only effect on the proposed amendments is a renumbering of paragraphs and cross-references.

[2] Paragraph 25F in the exposure draft.

The Agenda Papers on oil and gas assets brought to the Board in April proposed the following effective date for the amendments on that topic. Staff recommend the same effective date for the additional changes in this Agenda Paper.

Effective date

39A Paragraphs 31A, D1(c), D6A, D9 and D21 were amended in MONTH 2009. An entity shall apply those amendments for annual periods beginning on or after ~~[date to be inserted after exposure]~~1 January, 2010. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

No additional changes are proposed to paragraphs IG204 or IG205 as exposed.

IFRIC 4 *Determining whether an Arrangement contains a Lease*

IG204 IFRIC 4 specifies criteria for determining, at the inception of an arrangement, whether the arrangement contains a lease. It also specifies when an arrangement should be reassessed subsequently.

IG205 Paragraph D9 of the IFRS provides a transitional exemption. Instead of determining retrospectively whether an arrangement contains a lease at the inception of the arrangement and subsequently reassessing that arrangement as required in the periods before transition to IFRSs, entities may determine whether arrangements in existence on the date of transition to IFRSs contain leases by applying paragraphs 6–9 of IFRIC 4 to those arrangements on the basis of facts and circumstances existing on that date.

IG Example 202 Determining whether an arrangement contains a lease

Background

An entity's first IFRS financial statements are for a period that ends on 31 December 20Y7 and include comparative information for 20Y6 only. Its date of transition to IFRSs is therefore 1 January 20Y6.

On 1 January 20X5 the entity entered into a take-or-pay arrangement to supply gas. On 1 January 20Y0, there was a change in the contractual terms of the arrangement.

Application of requirements

On 1 January 20Y6 the entity may determine whether the arrangement contains a lease by applying the criteria in paragraphs 6–9 of IFRIC 4 on the basis of facts and circumstances existing on that date. Alternatively, the entity applies those criteria on the basis of facts and circumstances existing on 1 January 20X5 and reassesses the arrangement on 1 January 20Y0. If the arrangement is determined to contain a lease, the entity follows the guidance in paragraphs IG14–IG16.

The exposure draft proposed adding paragraph IG 206. Staff recommendations for changes to the exposure draft wording are shown below (new text is underlined and deleted text is struck through).

IG206 Paragraph ~~25F~~ <u>D9</u> of IFRS 1 provides a~~n additional~~ transitional exemption <u>in addition</u> to that discussed in paragraph IG205. <u>That exemption applies only to arrangements that were assessed in the same manner as required by IFRIC 4.</u> ~~If an entity applied previous GAAP requiring a determination identical to that required by IFRIC 4 and that previous GAAP had transitional provisions identical to those in IFRIC 4 (the result being that the only difference in accounting is a different effective date from the one in the transitional provisions of IFRIC 4) that entity may elect to use the determination in accordance with the previous standard.~~ <u>If arrangements exist at the date of transition to IFRSs that an entity did not assess under previous GAAP in the same manner as required by IFRIC 4 to determine whether they contain a lease, the entity may apply the transition exemption in paragraph IG205.</u>

Staff proposals for changes to the Basis for Conclusions included in the exposure draft are shown below (new text is underlined and deleted text is struck through).

Leases

BC13 IFRIC 4 *Determining whether an Arrangement contains a Lease* permits an entity to apply its requirements to arrangements existing at the start of the earliest period for which comparative information is presented on the basis of facts and circumstances existing at the start of that period. Before adopting IFRSs, a jurisdiction might adopt a national standard ~~identical to~~ having the same effect as the requirements of IFRIC 4, including the same transitional provisions. An entity in that jurisdiction might then apply requirements ~~identical to those of IFRIC 4~~ having the same effect as the requirements of IFRIC 4 to some or all arrangements (even if the wording of those requirements is not identical). However the entity might apply the requirements at a date different from the date in the transitional provisions of IFRIC 4. ~~at the start of the earliest period for which comparative information is presented in accordance with that national standard. However, on adopting IFRSs,~~ IFRS 1 would require that entity to reassess that accounting retrospectively on first-time adoption. This might result in additional costs, with no obvious benefits. Accordingly, the Board ~~proposes~~ decided that if a first-time adopter made the same determination under previous GAAP as that required by IFRIC 4 but at a date other than that required by IFRIC 4, the first-time adopter need not reassess that determination when it adopts IFRSs.

BC14 The Board considered a more general modification to IFRS 1. It considered whether to modify IFRS 1 so that entities need not reassess, at the date of transition to IFRSs, prior accounting if that prior accounting permitted the same prospective application as IFRSs with the only difference from IFRSs being the effective date from when that accounting was applied. In this regard, the Board noted that any such proposal must apply to ~~*identical*~~assessments resulting in the *same* determination, rather than *similar* ~~assessments~~determinations, because it would be too difficult to determine and enforce what constitutes a sufficient degree of similarity. The Board noted that many of the circumstances in which this situation might arise have been dealt with in IFRS 1 or other IFRSs. Accordingly, the Board ~~proposes~~ decided to focus on IFRIC 4 only.

APPENDIX B: Analysis of responses to the exposure draft

ISSUE	COMMENT[3]	CL #[4]	STAFF ASSESSMENT	RECOMMENDATION FOR REVISED WORDING
Q3. Operations subject to rate regulation				
Q3.1.0 Scope	Proposed relief should apply to any entity that has been using rate-regulated accounting and will find it difficult to adjust asset balances, regardless of whether it meets this definition.	34, 84	Disagree. The Board did not intend the proposed exemption to be made available to any entity previously using rate-regulated accounting. Rather, it intended it to apply only to qualifying entities, ie those meeting the criteria in paragraph 19B.	None
Q3.1.1	Scope of proposed exemption should be extended to certain items that: a) are currently included in PP&E but, in accordance with a new primary source of previous GAAP, will require reclassification as intangible assets in 2009; and b) meet the exemption criteria specified for PP&E. Like PP&E, the carrying values of these intangibles (eg computer software and land rights) include amounts (eg imputed cost of	38, 49[5], 62, 71, 75, 81, 83, 84	Agree that the proposed exemption and supporting rationale apply equally as well to these intangibles. Staff think that that this transitional issue is broader than was originally envisaged and should therefore be dealt with in a broader context. Staff recommend extending the scope of the proposed exemption to also include qualifying items classified as intangible assets.	Recommend adding the following after the third sentence in proposed new paragraph 19B (would be paragraph D8B in re-formatted IFRS 1): "<u>This election applies equally to long-lived intangible assets, when their carrying amounts similarly include amounts not qualifying for</u>

[3] Summaries or extracts from comments providing varying perspectives. When particular perspectives are repeated, the most complete comment is included.
[4] References to Canadian responses on questions 4 and 5 are shown in red.

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	equity) that qualify for capitalisation under Canadian GAAP but not under IFRSs. Therefore, the same transitional issues apply.			<u>capitalisation in accordance with IFRSs.</u>"
Q3.1.2	Proposed exemption should be reworded to ensure that it covers all variances between the carrying amount of PP&E as recorded under previous GAAP and depreciated cost under IFRSs, not just those caused by differences in what is permitted to be capitalised under the two GAAPs. The primary difference is depreciation methodologies. "For example, there are significant differences between the composite depreciation methodology employed by many rate-regulated utilities in the US and Canada and the componentization required in IAS 16. These differences would have had an impact not only on the depreciation recorded in prior periods, but also on the way in which gains and losses on the disposals of property, plant and equipment had been recorded." (CL 83)	71, 83, 85, 95	Disagree. Staff think the Board did not intend the proposed exemption to cover all possible variations between the carrying amount of an item of PP&E under an entity's previous GAAP and what it would be under IFRSs. Amending the proposals as recommended by respondents would leave the exemption open ended, allowing it to be applied to any such variations, regardless of their nature or significance. Further, staff understand that the "componentization" issue is not as significant for this sector as it was once thought it to be. This is evidenced by the small number of respondents raising it.	None
Q3.1.3	Proposed exemption should be extended to other regulated operations (eg those subject to volume regulation) where carrying amounts	23	Disagree. The proposed exemption focuses on rate-regulated entities because they are capital intensive and their items	None

[5] 11 other respondents made a blanket statement supporting the comments of this respondent. These other respondents are not listed separately here or elsewhere when referencing CL 49, unless their comment letter repeated the point made in CL 49.

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	include imputed cost.		of PP&E are often very old. For these reasons, disentangling amounts not qualifying for capitalisation under IFRSs from the total carrying amount of items of PP&E presents challenges unlikely to be faced by other first-time adopters. When consulting with entities on the issues likely to impede their adoption of IFRSs for the first time, staff were not advised of any particular problems faced by entities subject to volume regulation. Similarly, only one respondent to the ED raised this issue.	
Q3.2.0 Definition	Should remove definition of "operations subject to rate regulation" included in paragraph 19B. The definition should be subject to due process as part of the IASB's separate project on rate-regulated activities.	34	Agree that the term "operations subject to rate regulation" is better defined as part of the Board's separate project on rate-regulated activities ("the larger project"). Should that project be completed in time for the next wave of first-time adopters and result in a new standard, the proposed amendment to IFRS 1 in respect of rate-regulated operations could be rendered unnecessary, or require	Recommend that the last sentence in proposed new paragraph 19B (would be paragraph D8B in re-formatted IFRS 1) be amended as follows: "For the purposes of this paragraph, operations are subject to rate regulation if they provide services or products to customers at prices (ie rates) established by <u>an authorized body</u>

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			significant change. However, in the meantime, a definition is a necessary component of the proposed amendment in order to restrict the application of the proposed exemption to qualifying entities. Staff recommend that the definition included in the ED be changed as shown in the next column to reflect current thinking of the larger project on which entities should be within the scope of an eventual standard on rate-regulated activities (see Staff Paper for April 2009 IASB meeting – Agenda reference 9).	<u>empowered to establish rates that bind customers, and</u> <u>designed to recover the specific entity's allowable costs of providing the services or products. Allowable costs include interest costs and a reasonable return on shareholders' investments.</u> ~~legislation, an independent regulator or other authorized body that are designed to recover the cost of providing the services or products and allow the entity to earn a determined return on investment~~."
Q3.2.1	Reference in the definition to rates being established to recover costs and "earn a determined return on investment" could result in it being interpreted too narrowly. Some forms of rate regulation in North America include incentives that encourage an entity to improve efficiency and may result in the entity earning a return greater than the predetermined return if efficiency targets are met. Suggest the words "and allow the entity to earn a	77	The Board intended that in order for an entity to qualify to use the proposed exemption, it must be subject to cost-of-service regulation. This is consistent with the approach being taken in the Board's larger project on rate-regulated activities. The words the respondent suggests be deleted were part of the	None specific to this issue. However, see issue Q3.2.0.

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	determined return on investment" be deleted.		description of cost-of-service regulation included in proposed paragraph 19B as exposed in the ED. The revised wording recommended above (see issue Q3.2.0) removes these words and refers instead to rates providing "a reasonable return."	
Q3.2.2	In order to appropriately reflect the economics of the rate-setting process, the definition should be changed to make clear that rates are designed to recover costs and provide "the opportunity" to earn a determined return on investment, ie a determined return on investment is not guaranteed. Suggest changing "… and allow the entity to earn a determined return on investment" to "and allow an entity *the opportunity* to earn a determined return on investment."	49	The revised wording recommended above (see issue Q3.2.0) removes the words the respondent is concerned about, but do not go so far as to distinguish between allowing an entity to earn a return and allowing an entity *the opportunity* to earn a return. Staff think that neither the wording in the ED nor the recommended revised wording implies a guarantee of a return on investment.	None specific to this issue. However, see issue Q3.2.0.
Q3.3.0 Impractic-ability	Impracticability condition should be removed: • Not a condition for other IFRS 1 elections, or for the proposed exemption for first-time adopters using full cost accounting for oil and gas assets. "We note that no other IFRS 1 election, or any other IFRS standard, with the exception of IAS 8, require an entity demonstrate impracticability. The IFRS 1	26, 27, 38, 45, 47, 49, 53, 54, 59, 65, 71, 72, 73, 74, 75, 77, 81, 82, 83, 84, 85, 89	Agree. The impracticability condition attached to the proposed exemption is inconsistent with all other IFRS 1 exemptions, and with the Board's stated rationale for the proposed relief (ie to provide a suitable starting point for accounting	Recommend that the third sentence in proposed new paragraph 19B (would be paragraph D8B in re-formatted IFRS 1) be amended as follows: "If this is the case, a first-time adopter may elect to

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	election as currently proposed for oil and gas assets does not have a similar impracticability test. Yet we believe that the underlying rationale and objectives of the elections proposed for oil and gas assets and operations subject to rate regulation are similar." (CL 84) "The IASB had considered the 'impracticable' condition in drafting the original version of IFRS 1. However, it was not carried through to the final version of IFRS due to it being difficult to apply and the overall objective of IFRS 1 being to provide relief in first-time adoption of IFRS based primarily on the cost vs. benefit assessment." (CL 85) • Will severely limit the ability to use the deemed cost election because even if FV can't be determined in an active market, it can often be estimated through valuation techniques (even if the cost would be excessive). • Should focus on cost/benefit balance rather than impracticability. "… the premise of IFRS 1 in general is to consider implementation on a cost/benefit basis, not impracticability." (CL 72) "… we are concerned that by introducing the concept of impracticability to this election, the IASB has overlooked the objective of balancing		under IFRSs that does not involve excessive costs and effort). Staff recommend that this condition be removed.	use the carrying amount of such an item at the date of transition to IFRSs ~~if it is otherwise impracticable (as defined in IAS 8) to meet the requirements of this IFRS~~."

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	cost and effort. Irrespective of whether the impracticability criterion can be demonstrated in practice, the cost of total compliance may far outweigh any benefits of such application of IFRS for users of financial statements.” (CL 84) • Paragraph 19B specifies that the proposed election can be used “if it is otherwise impracticable (as defined in IAS 8) to meet the *requirements* of this IFRS.” [Emphasis added.] The FV as deemed cost election in IFRS 1 is a choice, not a requirement. Therefore, based on a strict read of the proposed amendment, an entity need only demonstrate that it is impracticable to retrospectively restate. Disagree with the IASB if it intends the impracticability condition to also apply to FV as deemed cost. “We believe that rate-regulated entities should be afforded the same optionality on fair value as other entities. We do not believe that a rate-regulated entity should have to demonstrate that it would not otherwise qualify for the fair value option.” (CL 72) • FV not relevant in a rate-setting context in any case. “As regulated entities, our revenue requirements, property, plant and equipment and associated expenses are based on historical cost and we question the relevance			

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	of the utilization of fair values as an opening balance sheet amount for our industry." (CL 74)			
Q3.3.1	As presently worded, proposed new paragraph 19B permits a first-time adopter to elect to use the carrying amount of a qualifying item as its deemed cost at the date of transition to IFRSs "if it is otherwise impracticable (as defined in IAS 8)" to meet the requirements of IFRS 1. Suggest the phrase "as defined in IAS 8" be removed. Its inclusion could imply that any term that is defined in one IFRS and used in another does not necessarily take on its defined meaning unless specifically indicated.	10	Agree. Staff recommend that the impracticability condition be removed altogether (see issue Q3.3.0). However, should the Board disagree, staff recommend the removal of the phrase "as defined in IAS 8" from the proposed new paragraph.	Recommend that the third sentence in proposed new paragraph 19B (would be paragraph D8B in re-formatted IFRS 1) be amended as follows should the impracticability condition be retained: "If this is the case, a first-time adopter may elect to use the carrying amount of such an item at the date of transition to IFRSs if it is otherwise impracticable ~~(as defined in IAS 8)~~ to meet the requirements of this IFRS."
Q3.4.0 Impairment testing	Should remove requirement to "test" each "item" for which the exemption is used for impairment in accordance with IAS 36: • Significantly more onerous than IAS 36 requirement to look for indications of impairment at end of each reporting period. • An entity is required to apply IAS 36 at date	38, 49, 72, 75, 77, 81, 82, 84, 85, 89	Disagree that this requirement should be removed. The requirement to test for impairment was included to provide added assurance that an item's carrying amount provides a suitable starting point for accounting under IFRSs. Further,	None

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	of transition in any case, and will test for impairment if impairment indicators exist. Should not have to perform test merely as a result of qualifying for the proposed exemption. "We propose that the wording should be adjusted to state that 'an entity shall *assess* [emphasis added] each item for which this exemption is used for impairment…' Under this approach an entity would first consider whether there are indicators of impairment and if so, only then perform an impairment calculation." (CL 85) • Deviates from the requirements of other IFRSs. • "Item" not defined under IFRSs. – Different interpretations of what is an "item" could result in different applications of the standard, making the impairment testing less relevant across entities. – Could be interpreted to mean the test needs to be performed at a lower level of detail than cash-generating unit or asset requirement of IAS 36. • The requirement could make application of the proposed exemption practically unachievable. IAS 36 cannot reasonably be		estimating future cash flows and, therefore, testing for impairment, should not be difficult in a rate-regulated environment, given the influence of the rate-setting process on those cash flows. Staff recommend no change to the proposed exemption for this issue. However, staff recommend amending the Basis for Conclusions to clarify that the Board intends that the required impairment testing be performed at the level specified in IAS 36, not one that is lower.	

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	applied on an item-by-item basis. "Testing on an item by item basis for impairment is not attainable in a rate regulated environment as our assets do not operate as individual assets, but rather as systems of assets which operate as cash generating units." (CL 84) • Impairments are rare in rate-regulated environment and generally occur only where the regulator has deemed a cost to be imprudent. An entity assesses for such cases in the normal course of business.			
Q3.4.1	As presently worded, proposed new paragraph 19B requires an entity to test each item for which the proposed exemption is used for impairment in accordance with IAS 36 "and, if necessary, reduce the carrying amount." Suggest the phrase in quotes be removed because it unnecessarily explains the operation of IAS 36, rather than imposes an additional requirement.	10	Agree. Staff recommend that this phrase be removed from the proposed new paragraph.	Recommend that the second last sentence in proposed new paragraph 19B (would be paragraph D8B in re-formatted IFRS 1) be amended as follows: "At the date of transition to IFRSs, an entity shall test each item for which this exemption is used for impairment in accordance with IAS 36 ~~and, if necessary, reduce the carrying amount~~."
Q3.5.0 Basis of application	Requirement to apply the proposed exemption item by item leaves it open to abuse and could	47, 60	Disagree. The proposed exemption must necessarily be	None

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	result in a class of fixed assets having some items at cost and others at FV or deemed cost (resulting in reduced comparability). More appropriate to apply it class by class.		applied item by item. As respondents have noted, not all items in a class will necessarily meet the qualifying criteria.	
Q3.5.1	Should specify that in applying the proposed exemption, an entity should remove non-IFRS-compliant amounts to the extent possible, even if it means removing only some such amounts from the carrying amount of an individual item of PP&E. For example, some amounts have been capitalised more recently and are therefore more easily removed.	34	Disagree. The Board intended the proposed exemption to be applied item by item, not cost by cost. Doing as the respondent suggests: a) would result in an item's restated carrying amount comprising one component in accordance with an entity's previous GAAP and another in accordance with IFRSs; b) raises new issues, ie what does "to the extent possible" mean and how far back is "more recently"? and c) isn't necessary to achieve the Board's objective of providing a suitable starting point for accounting under IFRSs. The Board decided that the proposed exemption, as presently worded, does this.	None
Q3.5.2	Proposed new paragraph 19B requires that the proposed exemption be applied "item by item,"	73	Disagree. IAS 16 also refers to items of PP&E without defining	None

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	and that each "item" for which the exemption is used be tested for impairment. Additional guidance is needed on the definition of an "item" in each case.		the term "item." Staff think it self-evident that for purposes of applying the proposed exemption, an entity should interpret this term consistently with how it is interpreted when applying IAS 16. No change recommended.	
Q3.6.0 Interaction with other paragraphs in IFRS 1	Should clarify the interaction between the proposed exemption and IFRS 1 paragraph 25I (D23 in re-formatted IFRS 1) (relating to borrowing costs), similar to what has been done for IFRS 1 paragraph 25E (D21 in re-formatted IFRS 1) (relating to decommissioning liabilities). "We believe that the proposed IFRS 1 exemption for operations subject to rate regulation should trump the optional exemption for borrowing costs, thereby effectively grandfathering borrowing costs capitalized under previous GAAP as they form part of the carrying amount of property, plant and equipment at the transition date." (CL 49)	49, 84	Agree. Entities subject to rate regulation typically capitalise borrowing costs as part of the cost of PP&E acquired, constructed or produced over time. The proposed exemption does not target capitalised borrowing costs, because (unlike an imputed cost of equity that these entities may have capitalised as part of the cost of PP&E) they are not a non-IFRS-compliant amount. However, the proposed exemption could affect an entity's treatment of borrowing costs upon first-time adoption by virtue of the fact that these costs are included in the transition date carrying amount of an item of PP&E. An election to use this carrying amount as an item's deemed cost at the date of	Propose adding the following to the end of paragraph D23: <u>An entity applies either this exemption or the exemption in paragraph D8B (for operations subject to rate regulation).</u>

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			transition to IFRSs would thus override the borrowing costs exemption in paragraph D23 of the standard. Staff recommend adding a sentence to paragraph D23 to explain this.	
Q3.6.1	Proposed paragraphs 25E and 25EA should apply equally to oil and gas or rate-regulated entities electing (under paragraphs 19A or 19B) to use previous GAAP carrying amounts as deemed cost.	59	Agree that paragraph 25E (now D21) applies to all entities. However, although similar in nature, the exemptions proposed for oil and gas entities, and for rate-regulated entities, are not identical. The additional text the ED proposed be added to paragraph 25E(c), and separate paragraph 25EA, reflect this fact and explain the effect of each of these proposed new exemptions on already existing IFRS 1 requirements pertaining to changes in decommissioning, restoration and similar liabilities.	None
Q3.7.0 Disclosures	When an entity uses the proposed exemption, it should disclose this fact.	23	Disagree. The majority of existing IFRS 1 exemptions do not include such a requirement. The proposed amendments to IFRS 1 for oil and gas do include a disclosure requirement.	None

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			However, it was added to ensure that readers are informed of the basis for the allocation of carrying amounts to the underlying assets.	
Q3.8.0 Basis for Conclusions	Paragraph BC9 need not state that the inclusion of an imputed cost of equity in property, plant and equipment is not in accordance with IAS 23 *Borrowing Costs*. In fact, IAS 23 states that the standard "does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability."	49, 84	The respondents appear to be objecting to the words "is not in accordance with IAS 23" because the cost of equity is simply not dealt with in IAS 23. The point to be made in paragraph BC9 is that no IFRS permits the capitalisation of an imputed cost of equity. Staff recommend amending the paragraph to state this more clearly.	Propose that the last sentence in paragraph BC9 be amended as follows: "An imputed cost of equity is not permitted to be capitalised in accordance with IFRSs~~The inclusion of an imputed cost of equity in property, plant and equipment is not in accordance with IAS 23 *Borrowing Costs* and IAS 16 *Property, Plant and Equipment*~~."
Q4. IFRIC 4: Leases				
Q4.1 **Disagree** with need to make modifications	Proposed amendments are not necessary. Those adopting IFRS so far have managed. Will reduce comparability between entities already applying IFRSs and those adopting in future.	4	The different circumstances related to entities in countries currently adopting IFRSs were discussed by the Board as part of approving the ED. Also, BC 10 of IFRS 1 states "it is more important to achieve comparability over time within a	N/A

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			first-time adopter's first IFRS financial statements and between different entities adopting IFRSs for the first time at a given date: achieving comparability between first-time adopters and entities that already apply IFRSs is a secondary objective."	
Q4.2 Disagree	If a correct option has been used it would not make much difference to go back in time.	22	Staff disagree with the respondent. The point is not that the entity would have to go back in time. Rather, that this would require the entity to generate new fair value information, either from the inception of the arrangement, or at the date of transition.	None
Q4.3 Agree with the amendment, as proposed	Unqualified agreement with the proposal (21 respondents) [6]	10, 14, 15, 17, 19, 27, 31, 32, 40, 41,[1] 42,[1] 52, 58, 65, 66, 68, 69, 88, 90, 91, 95	No action necessary.	None
Q4.4 Agree,	It may be worthwhile stating the presumption	15	This was the intent of the	Staff recommend adding

[6] 2 of the 21 respondents state that they agree, but claim that this would provide relief under EIC-150, which it would not.

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but also should clarify that an IAS 17 equivalent was in place in previous GAAP	that in making a determination under IFRIC 4 under previous GAAP that a standard equivalent to IAS 17 'Leases' was effective in that jurisdiction. IFRIC 4 relies on the classification requirements contained in IAS 17 – if for some reason under previous GAAP the IAS 17-equivalent standard was modified, any assessment made for the purposes of applying IFRIC 4 may not satisfy the intention of paragraph 25F.		requirement that the entity "made the *same determination* under previous GAAP as that required by IFRIC 4." However, clarification of this point might be desirable.	words to paragraph D9 stating that, <u>"For an entity to make the same determination under previous GAAP, that determination of whether the arrangement contained a lease should then have been applied in accordance with requirements that give the same result as IAS 17, *Leases*."</u>

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Q4.5 **Agree,** but also request confirmation that applies to compliance with IAS 17 / IFRIC 4, even if words of local standard differ.	Our understanding is that this exemption applies to scenarios as outlined in the following example: An entity accounts for a lease under previous GAAP in 2004. In 2007, the jurisdiction in which this entity operates commences to allow accounting for leases either according to previous GAAP or according to the guidance in IAS 17. At that time the entity makes the assessment that its lease accounting is in line with the guidance in IAS 17. In 2011 the entity is a first-time adopter of IFRS; according to the proposed exemption it will not be required to again reassess the lease because only the date of assessment is distinct from the one required under IFRSs. Based on this understanding we agree that a first-time adopter shall not be required to perform a reassessment according to IFRS 1, if the entity has applied the determination required under previous GAAP as described in IFRIC 4.	23	Staff agree that the words allow for the possibility outlined by the respondent. Staff think that it makes sense for that possibility to be included. There should be no need for an entity to undertake a new assessment if it has made that assessment previously, even if the words of the local standard differ from those of IFRSs.	Staff recommend amending the third sentence of BC 13 to state that, "An entity in that jurisdiction might then apply requirements <u>having the same effect as the requirements of IFRIC 4 (even if the requirements are not identical in wording).</u>"
Q4.6 **Agree**, but also clarify that applies on arrangement-by-arrangement	… the introduction of the requirement in IG206 and BC13 for the transition requirements of the previous GAAP and IFRIC 4 to be the same (or identical) might have different interpretations. This issue is illustrated in the following example: Pursuant to the transitional provisions of	85, 89	Staff agree that the intent is to provide relief for situations where previous accounting requirements have required an identical assessment. When no such assessment has been required, an entity should be required to make	Staff recommend the following wording changes to paragraph IG206 and to BC13. The recommended amendments to IG 206 make

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basis	Emerging Issues Committee (EIC) 150 — Determining Whether an Arrangement Contains a Lease, a Canadian entity would have assessed all arrangements entered into subsequent to 9 December 2004 to determine if they contained a lease, with no requirement at transition to EIC-150 to reassess any ongoing arrangements it had previously entered into. For periods beginning on or after 1 January 2006, IFRIC 4's transitional provisions required either a full retrospective assessment or an assessment of all arrangements existing at the start of the earliest period presented in an entity's financial statements. In this scenario, the transition provisions of the two GAAPs are not identical and therefore it could be interpreted to mean that: • the newly proposed exemption in paragraph 25F would not be applicable at all, due to the different transition requirements of the two standards; or • the IFRIC 4 exemption proposed in the ED should be applied arrangement by arrangement, thus allowing the exemption to be applied to those arrangements that had been assessed under the previous GAAP. In this example, those arrangements still existing at the transition date to IFRS that had not been assessed under EIC150 would need to be assessed under IFRIC 4 as of the		that assessment on transition to IFRSs. Staff agree that the application should be arrangement by arrangement. However, staff think that the wording changes to IG206 and BC 13 should differ from those proposed by the respondent.	it clearer that each of the transitional exemptions in paragraph D9 may be applied depending on the circumstances affecting a particular arrangement. IG 206. "Paragraph ~~25F~~ <u>D9</u> of IFRS 1 provides an additional transitional exemption to that discussed in paragraph IG205. <u>That exemption applies only to arrangements assessed in the same manner as required by IFRIC 4.</u> ~~If an entity has applied a standard under previous GAAP requiring a determination identical to that required by IFRIC 4 and that standard has identical transitional provisions to those in IFRIC 4 (the result being that the only difference in accounting is a different effective date from the one in the transitional provisions of IFRIC 4) that entity may elect to use the~~

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	transition date, pursuant to the currently existing IFRS 1 exemption regarding IFRIC 4. We believe this exemption would be more useful, and advance the Board's goal of improving the practical application of IFRS 1, if it were to be applied arrangement by arrangement. We therefore recommend that paragraph IG206 be changed to the following: "Paragraph 25F of IFRS 1 provides a transition exemption in addition to that discussed in paragraph IG205. If an entity applied previous GAAP to an arrangement that required a determination identical to that required by IFRIC 4, that entity may elect to use the determination in accordance with the previous standard for that arrangement. For arrangements existing at the transition date and for which an entity did not apply an identical determination to that required by IFRIC 4, it may apply the transition exemption discussed in paragraph IG205." We also recommend that paragraph BC13 be modified as follows: "…Before adopting IFRSs, a jurisdiction might adopt a national standard identical to IFRIC 4. An entity in that jurisdiction might then apply requirements identical to			~~determination in accordance with the previous standard.~~ <u>For arrangements existing at the date of transition to IFRSs and for which an entity did not make the same determination under previous GAAP as required by IFRIC 4, it may apply the transition exemption discussed in paragraph IG205."</u> The recommended amendments to BC 13 build on those recommended regarding issue Q4.6 and introduce the idea that the exemption might apply either to all arrangements, or only some arrangements. BC13. "An entity in that jurisdiction might then apply requirements having the same effect as the requirements of IFRIC 4 <u>to same or all arrangements</u> (even if the requirements are not identical in

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	those of IFRIC 4 to some or all arrangements. However, on adopting IFRSs, IFRS 1 would require…" It would also be helpful to include an example in the interpretive guidance to IFRS 1 outlining application of this exemption. (CL #85) … we recommend making it clear that the exemption applies on an arrangement-by arrangement basis as opposed to all arrangements. (CL #89)			wording)."
Q4.7 **Agree**, but also expand proposal to allow no reassessment when different application basis was applied in accordance with previous GAAP	… we note that the proposed exemption, as written, will not provide relief to entities that have applied similar requirements under previous GAAP *on a prospective basis*. IFRIC 4 was required to be applied on a retrospective basis by existing IFRS preparers. Other GAAPs which required a similar assessment as IFRIC 4 required the assessment to be made prospectively. We believe that first-time adopters that applied a similar requirement prospectively under previous GAAP should be permitted to carry forward that previous GAAP accounting on transition to IFRS without adjustment. We understand that the rationale for the reliefs provided by IFRS 1 is to exempt the reporting entity from applying full retrospective application of IFRSs. We also understand that the effect of granting reliefs provides an entity	26, 39, 54, 55, 59, 75, 77, 82, 84, 49, supported by 53, 78, 86, 93, 94	Essentially, these respondents wish to expand the proposal beyond evaluation at a different date, to also allow for there to be no re-evaluation when the evaluation in accordance with previous GAAP was applied on a prospective basis. Such an accommodation would save an entity from restating amounts at the date of transition for those arrangements that had previously been assessed in accordance with the previous national GAAP. For example, an entity might have several arrangements, some of which were assessed in accordance with previous GAAP the same as	See recommended wording changes in response to issue Q4.6.

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	with a pragmatic approach to preparing a reasonable opening IFRS balance sheet from which full IFRSs can be applied for all future periods. Accordingly, an exemption that permits the continued application of a previous GAAP requirement that was similar to a corresponding IFRS requirement in all respects other than the date of application (including retrospective/prospective application) is consistent with the objective of providing an opening balance sheet from which IFRSs can be applied for future periods. … suggested alternative wording for the proposed amendment. 25F A first-time adopter may apply the transitional provisions in IFRIC 4 *Determining whether an Arrangement contains a Lease*. Therefore, a first-time adopter may determine whether an arrangement existing at the date of transition to IFRSs contains a lease on the basis of facts and circumstances existing at that date. <u>If a first-time adopter made the same determination under previous GAAP as that required by IFRIC 4 but at a date other than that required by IFRIC 4 **and on either a prospective or retrospective basis**, the first-time adopter need not reassess that determination at the date of transition to IFRSs. (CL#26)</u>		IFRIC 4, but others which were not so assessed because of the ability to apply the previous GAAP prospectively. Staff think that the accommodation should be extended so that an entity need not reassess those arrangements previously assessed in the same manner as IFRIC 4. However, other arrangements, not assessed in accordance with previous GAAP, should be reassessed on first time adoption. That is, the result is that all arrangements are assessed in accordance with IFRIC 4, or equivalent, requirements – however, those previously assessed are not re-assessed. We think that this extra relief is limited in its application, but would provide useful additional relief. This builds on the analysis in Q4.6 which proposes that the application should be arrangement by arrangement.	

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	The IFRS 1 should provide the same prospective application in order to ease the transition because it might be difficult for first-time adopters to obtain the facts and circumstances retrospectively for long term arrangements and the materiality of the amounts involved might not justify the efforts required to comply with IAS l 7. (CL #54) The exemption from reassessment should be available for any arrangement existing at the date of transition that had been assessed under suitable national GAAP prior to the date of transition. (CL #59) … the IFRIC recognizes the difficulty in retrospective application of the guidance, especially the difficulty associated with going back in time to make an assessment of whether arrangements might meet the criteria in the guidance (paragraph BC50). The introduction to IFRS 1 also recognizes this difficulty in paragraph IN 4 which states "*The IFRS also 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*." Under IFRIC 4, one is required to assess whether another party would be taking more than an insignificant portion of the output			

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	of the asset. It may be difficult, if not impossible, to make that assessment as if one was at the date of inception of the contract. Since there is recognition of these difficulties through-out IFRS, there is support for allowing relief to first time adopters of IFRS who would have had prospective treatment under their previous basis of GAAP. (CL #75)			
Q4.8 **Agree**, but requirement for *identical* assessments is too strict.	… we are concerned with the Board's use of the term "same" (paragraph 25F) and "identical" (BC 13) in the proposal. We do not believe the final standard should use the word "identical" because this could lead to a very strict interpretation where a national GAAP standard is not a complete replication of IFRIC 4. Instead, we believe that the exemption should be available where, under previous GAAP, an assessment was made which is consistent with the principles of IFRIC 4. (CL#59) ... paragraph 25F of the ED uses the term 'same determination', while paragraph IG206 uses 'determination identical'. We recommend using the term 'determination identical' in both paragraphs to avoid potential differences in interpretation. (CL #85) … we believe the Board's intent was that the 'assessment' under IFRIC 4 and previous GAAP should be identical, but not that the subsequent	81, 84, 49, supported by 53, 78, 59, 85, 86, 89, 93, 94	The intent was that the *assessment* under the previous GAAP would be identical to that under IFRSs, except for the effective date. To use words such as "substantially similar" or "substantially aligned" would open the door for considerable interpretation. However, staff agree that the intent was that the assessment be identical, rather than that the words of the standard be identical (although it is difficult to see how the assessment would be identical if any substantive words of the standard were to differ). Accordingly, staff think it desirable to replace the word *identical* with the words *same determination*.	As noted in response to issue Q4.4, staff recommend adding words to paragraph D9 stating that, <u>"For an entity to have made the same determination under previous GAAP, that determination of whether the arrangement contained a lease should then have been applied in accordance with requirements that give the same result as IAS 17, *Leases*."</u> In addition, staff recommend referring to *same determination* throughout the changes, rather than *identical*. These words are already used in

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	lease accounting must also be identical. For avoidance of doubt, the Board should not use the term ‘accounting’ as currently used in paragraph IG206. (CL #85) We express concern with the wording proposed in the basis of conclusions paragraph 14 which states that “the Board noted that any such proposal must apply to identical, rather than similar accounting”. [Staff Note: The Basis refers to identical *assessments*, not identical *accounting*.] We understand the Board’s dilemma with regards to enforcing what constitutes a sufficient degree of similarity, however we feel that the use of the word identical may be prohibitively exclusive. Some users may interpret the word identical in an extreme manner, expecting that in order to meet this requirement every word of the previous GAAP match IFRIC 4 exactly. We believe this was not likely to have been the intent of the Board and as such would suggest the Board consider replacing the word “identical” with “substantially similar”. Alternatively the Board could consider wording such as ‘GAAP that would come to the exact same conclusion in every instance of application by the entity’ or the Board could consider specifying the paragraphs of the standard that need to be identical, versus those where some deviation may be acceptable. [CL			paragraph D9 and have been used in changes introduced to paragraphs IG206 and BC13-14.

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	#86, 93, 94] Paragraph 25F refers to "the same determination under previous GAAP". IG206 further explains that an "identical" determination is required and that the transitional requirements must be "identical". While we agree with the Board's comment in BC14 that requiring a "similar" accounting would be problematic, we believe that "identical" is too strict a requirement. We have not been able to identify any jurisdictions that would be able to use the exemption as written currently. We recommend using a phrase such as, "The requirements of previous GAAP are substantially aligned with IFRIC 4". The Basis for Conclusions then could explain that minor differences in wording that would not be expected to result in a different interpretation could be ignored, and that the respective transitional requirements need not be the same. Instead, the most relevant factor should be whether the arrangement was subject to an IFRIC 4-type assessment in determining the appropriate accounting under previous GAAP. (CL #89)			
Q4.9 **Agree,** but conform drafting to	… as BC 14 states that the proposal must apply to identical rather than similar accounting, we suggest that the term "same determination" in	63	We agree that the words should be consistent. However, staff think that the consistent words	We recommend referring to *same determination* throughout the changes,

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make *identical* in 25F	25F should be replaced by "identical determination". "If a first time adopter made the ~~same~~ identical determination under previous GAAP …"		should be *same determination* (see issue Q4.9).	rather than *identical*.
Q4.10 **Agree**, but also expand to different transitional provisions and grandfather local GAAP	… we believe the transition of entities to IFRS could be further facilitated if the IASB was to allow entities to retain on transition to IFRS accounting for arrangements that were previously grandfathered under local GAAP, even if local GAAP during the grandfathered period was not identical to IFRIC 4.	77, 49, supported by 53, 78, 86, 93, 94	We think that this would open up the accommodation too far and do not propose this approach. This would allow some arrangements not to be assessed in accordance with IFRIC 4, or equivalent, criteria.	None
Q4.11 **Agree,** but also should require that if lease terms have changed, reassess at transition date	… we believe the proposed paragraph should state that where the terms of the original lease agreement have changed, a first-time adopter should re-assess the agreement at the date of transition. This rationale is supported by IAS 17.13, which requires a reassessment of a lease in circumstances where the lessee and the lessor agree to change the provisions of a lease agreement.	19	This should not be necessary, because if the entity is following requirements identical to IFRIC 4 and IAS17, those standards will require reassessment if there is a change in the contractual terms.	None
Q4.12 **Agree**, but also remove reference to date.	… we recommend deleting the phrase "but at a date other than that required by IFRIC 4"; the date at which the assessment was made should not matter as long as the assessment was made for all arrangements existing at the date of	89	The emphasis on the date was intended to identify the one substantive item that could differ. However, staff agree that with the modified approach proposed	See recommended wording changes in response to issue Q4.6.

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	transition. (CL #89)		above, this emphasis is not necessary.	
Q4.13 **Agree,** but amend transition	We believe the transitional provisions should also clearly state that any arrangement not evaluated under previous GAAP (for example because the national GAAP only required assessment of new arrangements after the date of implementation) will be subject to evaluation under IFRIC 4.	59	This is the intent of the proposal and can be clarified in the Implementation Guidance.	As noted in the response to issue Q4.6, staff recommend amending IG206 to state that, "For arrangements existing at the date of transition to IFRSs and for which an entity did not make the same determination under previous GAAP as required by IFRIC 4, it may apply the transition exemption in paragraph IG205." The implication of this is that if it does not do that, then it must apply IFRIC 4.
Q4.14 **Agree**, but also request clarification	Under Canadian GAAP *EIC 150—Determining Whether an Arrangement Contains a Lease*, Canadian companies only need apply the standard to those arrangements that are acquired (via business combination), committed to, or modified in periods after December 9th, 2004. How will this impact IFRS first time adopters if, under previous GAAP, they were not required to determine if an arrangement prior to December 9th, 2004 contains a lease. Will IFRS 1 allow for a	80[1]	No. Staff did not expect that the proposals would provide relief for entities having applied EIC-150, because of the different transitional provisions. First-time adopters in these circumstances would need to evaluate remaining arrangements entered into before December 9th, 2004.	None

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	similar application as allowed under Canadian GAAP?			
Q5. Other assessments under previous GAAP				
Q5.1 No additional amendments identified or needed	21 respondents **agree** that no additional amendments to IFRS 1 are needed to address circumstances when assessments have been made under previous GAAP identical to those under IFRSs.	4, 10, 14, 15, 17, 19, 27, 31, 32, 40, 52, 54, 59, 66, 68, 69, 85, 88, 90, 91, 95	No action necessary.	None
	Four of those respondents emphasize that this type of relief should only be provided on a case-by-case basis.	10, 19, 27, 95	No action necessary.	None
	One of these respondents specifically agrees that any such proposal must apply to *identical*, rather than *similar* accounting, because it would be too difficult to determine and enforce what constitutes a sufficient degree of similarity.	19	No action necessary.	None
Q5.2 Need principle-based amendment	We disagree with the IASB´s decision not to adopt a more general modification to IFRS. 1. We believe that there could be other circumstances in which a first-time adopter applies requirements under previous GAAP that correspond with IFRSs. … proposes a more principle based modification to IFRS 1 so that at the date of transition to IFRSs entities	23, 75, 82	This alternative was rejected by the Board in developing the ED and is supported by very few respondents with no new arguments raised. Furthermore, the Board decided that it is preferable that *it* should assess whether a situation warrants an amendment to IFRS 1. No change	None

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	need not reassess, if they applied previous GAAP that corresponds with IFRSs, with the only difference being the effective date per which that accounting was applied. (CL #23) … does not agree that the situation referred to in Question 4 is the only one in which additional relief of this type is needed. Since one reason for the proposed exemption for leases is the recognition of the difficulty in going back in time to make an assessment of conditions that existed at the time that certain transactions or items existed, a general exemption along those lines would be advisable in the case of first time adoption. This should be consistent with the cost/benefit approach which underpins IFRS 1. (CL #75)		is proposed.	
Q5.3 Jurisdiction with GAAP the same (or virtually the same) as IFRSs.	Two respondents raise concerns about situations where an jurisdiction's national standards are the same or virtually identical to IFRSs save for the effective date. They suggest that IFRS 1 should include a principle that an entity need not reassess the accounting treatments at the date of transition to IFRSs as the recognition and measurement principles of those national standards are identical to that of IFRSs. In such case, IASB should be the appropriate standard to apply when entities in these jurisdictions migrate to the IFRS regime.	60, 96	In developing the ED, the Board decided that it is preferable that *it* should assess whether a particular situation warrants an amendment to IFRS 1. However, this situation alludes to a larger question as to whether any relief should be provided when a jurisdiction's complete (or almost complete) body of GAAP is already essentially IFRS compliant. That question is to be analyzed in a separate Agenda	None

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			Paper for a future meeting.	
	… we believe that there are other situations in which relief should apply. Over the past several years and currently, many Canadian accounting standards are being modified to converge with IFRS. As we adopt these changes to Canadian GAAP, there may be assessments done where the date may be different than the implementation date of IFRS 1. We also believe other countries that have yet to adopt IFRS may also face these circumstances. So although we agree that in order for relief to apply the prior accounting should be identical to IFRS, as in the case with leases, a reassessment under identical principles would provide no additional benefit.	42	The Basis for Conclusions notes that many of the circumstances in which this situation might arise have been dealt with in IFRS 1 or other IFRSs. Furthermore, the Board noted that no additional examples of similar circumstances had been provided, and that it preferred to assess each specific example on its merits. No specific examples are provided by this respondent.	None
Q5.4 Additional amendment to allow grandfathering when requirements the same as IFRS requirements have been in place in a jurisdiction	If at the date of transition to IFRS, the accounting is in accordance with IFRS, the date when the IFRS became effective should not make much of a difference. Therefore, this option should be extended to other items other than IFRIC 4. However, a minimum period for IFRS accounting being applicable before the date of transition be set e.g. the accounting under IFRS should have been applied at least three years before the date of transition, other than the accounting for which IFRS has been effective for less than three years, to allow the entity not to reassess the position. This would	22	This is a modification of the "principle-based" amendments discussed above and staff reject it for the same reasons. In addition, any fixed period prior to the date of transition can only be arbitrary.	None

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for three years before date of transition	help in avoiding change to accounting just before the transition. For transactions which are not in accordance with IFRS, restatement requirement			
Additional amendments requested				
Q5.5 Additional amendments for designation of financial instruments in accordance with IAS 39	Paragraph D19(a) of IFRS 1 (November 2008) refers to making an available-for-sale designation at the date of transition. Similarly, paragraph D19(b) refers to designating, at the date of transition, any financial asset or financial liability as at fair value though profit or loss if the relevant criteria in IAS 39 *Financial Instruments: Recognition and Measurement* are met. Other financial reporting frameworks may have a similar fair value option; one example is the fair value option available under UK GAAP, which is the same as the option under IFRSs but which may have been applied at a different date. The difficulty arises when an entity decides after the date that will be its date of transition that it will adopt IFRSs. It appears punitive not to allow use of the fair value option under IFRSs when a formal designation was made under previous GAAP, but was not made at the date of transition. Example wordings might be: *If an entity designated a financial asset as to be accounted for in the same way as an available for sale financial asset under IAS 39, then re-*	89	The point seems to be that an entity might have made a designation on initial recognition in accordance with previous GAAP, but is required by IFRS 1 to re-designate that financial instrument at the date of transition if it wishes to continue the accounting on transition to IFRSs. If the entity decides *after* its date of transition that it will adopt IFRSs it has missed the opportunity to designate such an instrument *at* the date of transition—even though it had previously designated the instrument under corresponding previous GAAP. This seems to be a valid concern. However, to introduce such a modification would require exposure. Staff recommend that the Board consider whether to make a change to IFRS 1 to	TBD

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	designation at the date of transition to IFRSs is not required. *If an entity designated a financial asset or financial liability as at fair value through profit or loss under previous GAAP, and the criteria in paragraph 9(b)(i), 9(b)(ii) or 11A of IAS 39 are met at the date of transition to IFRSs, then re-designation at the date of transition to IFRSs is not required.*		address this issue.	
Q5.6 Additional amendments for fixed dates in IFRS 1	We believe adoption dates should be updated to be relative to the date of first time adoption of IFRS by an entity, rather than a fixed date (as of 1 January 2004). This will limit the need for future amendments to IFRS 1 and ensure that the application dates are compatible for all entities regardless of when they adopt IFRS. For instance, the timeline presented in the SEC Roadmap could lead to mandatory transition to IFRS starting in fiscal years ending on or after December 15, 2014. The SEC Roadmap also contains proposed rule changes that would give certain U.S. issuers the early option to use IFRS in financial statements for fiscal years ending on or after December 15, 2009. We believe that some of the implementation dates contained within IFRS 1 are incompatible with 2009 let alone 2014. We believe the IASB should change the implementation dates within IFRS 1 in the	67	Issues similar to this were discussed by the Board in developing the proposed amendments to IFRS 1. A possible change relating to *derecognition* was explicitly discussed and rejected. The draft reasons for that rejection—not included in the final Basis for Conclusions were as follows: "Paragraph 27 of IFRS 1 requires first-time adopters to apply the IAS 39 derecognition requirements prospectively for transactions occurring on or after 1 January 2004. The Board considered whether to change this date. However, it noted that a basic principle underlying IFRS 1 is that an entity should recognise	None

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	following two areas: *De-recognition* Currently IFRS 1 requires first time adopters of IFRS to apply the de-recognition of IAS *39: Financial Instruments: Recognition and Measurement* ("IAS 39") requirements prospectively from I January 2004. We believe this exemption should be updated to be the date of transition to IFRS. The 1 January 2004 date had this effect for financial statement filers within the European Union. The adoption of the exemption for a comparable date for financial statement filers with the US as well as to the other many countries moving to IFRS would provide the same benefit their European Union counterparts experienced converting in 2005 to overcome the practical difficulties of restating transactions that had been derecognised before that date. Failure to update this transition guidance can be expected to discourage companies from electing to (early) adopt IFRS. Furthermore, we believe the exemption should be updated because restating past derecognition transactions would be costly, time consuming and in many cases not possible as it may be difficult to obtain accurate information on transferred assets that are no longer under the control of the reporting entity. Furthermore, the		all assets and liabilities whose recognition is required by IFRSs at the date of transition, unless there is a compelling reason not to do so. The Board was not convinced that there are compelling reasons in this case to permit assets and liabilities not to be recognised in the statement of financial position if they would otherwise be required to be recognised under IFRSs. Also, the Board noted that the 2004 date in IFRS 1 was a result of the timing of applying IAS 39 relative to its date of issue and maintaining consistency with existing IFRSs for preparers of financial statements that were not required to apply IAS 39 retrospectively—a situation that does not exist for subsequent first-time adopters." A first-time adopter could be required to restate back to January 1, 2004 for derecognition transactions if its date of transition to IFRSs is just before a new standard on derecognition comes into effect, but not need to do so if its date of	

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	information created could be biased from the benefit of hindsight. Finally, we believe that it will be extremely difficult for external auditors to get comfort in this area given the period of time that will have elapsed. As the Board states in IFRS 1.BC22A, the use of the 1 January 2004 date was allowed in order to 'overcome the practical difficulties of restating transactions that had been derecognised before that date'. These practical difficulties remain for those adopting IFRS for the first time any time after 1 January 2004. *Day 1 Gains* The requirement to defer Day 1 Gains has been removed under US GAAP with the implementation of SFAS 157 Fair Value Measurement. For US filers converting to IFRS, it would require considerable resources to complete this requirement and in many cases it would not be possible to obtain the necessary information. Currently IFRS requires financial statement preparers to apply the requirements regarding initial recognition of financial assets and financial liabilities contained with AG76 and AG76A of IAS 39, prospectively to transactions entered into after 25 October 2002 or 1 January 2004. The IASB is currently considering the accounting for Day 1 gains in its Fair Value		transition is very shortly afterwards. Staff recommend no immediate change to IFRS 1, but that this issue be considered in the context of any amendments to IFRS 1 to implement the proposed new IFRS on derecognition. The Board did not explicitly discuss *Day 1 gains*. Staff think that this matter is best referred to the staff dealing with the IASB's *Fair Value Measurement* project for their consideration as to whether any modification to IFRS 1 is necessary as a consequential amendment to introducing new IFRS requirements for determining fair values.	

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	Measurement project, we believe that in the spirit of convergence and from a sound technical perspective, the treatment should be consistent with US GAAP. [The respondent] believes that the exit price is the best indicator of fair value and it should be consistently applied regardless of whether or not the inputs are observable in a market. Furthermore, we believe recognition of Day 1 gains and marking within the bid/ask spread are most appropriate. Again, we recommend that the date of implementation should be set by reference to the appropriate transition dates for an entity adopting IFRS. The Board, as noted in IAS 39.BC222(v), commented that using a transition date before 1 January 2004 ("the date of transition to IFRSs for many entities") would be "difficult and expensive to implement, and might require subjective assumptions about what was observable and what was not". We believe this same logic should be applied for those entities adopting IFRS after 1 January 2004.			
Q5.7 Additional amendments for IAS 39 & IFRS 4	In [the respondent's jurisdiction], financial reporting under IFRS will be made mandatory for all listed companies from 2011. [Respondent jurisdiction] companies, first time adopter at 2011, are required to apply all requirements retrospective to the date currently	57	Issues similar to this were discussed by the Board in developing the proposed amendments to IFRS 1. See Q5.4. No new information is provided to suggest that any amendment to	None

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	specified in IFRS 1 First-time Adoption of International Financial Reporting Standards(e.g. on or after 1 January 2004). For [respondent jurisdiction] companies, restating derecognition transaction for past 7 years would be costly and lead to arbitrary results. Also, first time adopter may apply in either of (a) prospectively to transactions entered into after 25 October 2002; or (b) prospectively to transactions entered into after 1 January 2004, when financial assets or financial liabilities is measured at initial recognition. As a result, [respondent jurisdiction] companies, first time adopter at 2011, should apply the requirements retrospectively for past 7-9 years In this case, obtaining the fair value information for those past transactions of financial instruments may be impracticable or lack of readily available fair value information. Even though measurement of the fair value for those past transactions of financial instruments is possible, it would be costly and lack of reliability. Therefore, [the respondent] asks IASB for several amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards to mitigate difficulties that [respondent jurisdiction] companies shall face in adopting IFRSs in 2011, including the		IFRS 1 is warranted.	

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	following; B2 Except as permitted by paragraph B3, a first-time adopter shall apply the derecognition requirements in IAS 39 *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring <u>on or after the</u> <u>date later of (a) transition date to IFRSs</u> <u>or (b) 1 January 2004. ....</u> D4 A first-time adopter may apply the transitional provisions in IFRS 4 *Insurance Contracts*. <u>However, an</u> <u>entity does not need disclosure of</u> <u>comparative information that relates to</u> <u>annual periods beginning before date of</u> <u>transition to IFRSs.</u> IFRS 4 restricts changes in accounting policies for insurance contracts, including changes made by a first-time adopter. D20 Notwithstanding the requirements of paragraphs 7 and 9, an entity may apply the requirements in the last sentence of IAS 39 paragraph AG76 and in paragraph AG76A, in either of the following ways: (a) prospectively to transactions entered into after 25 October 2002; or (b) prospectively to transactions entered into after 1 January 2004.			

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	<u>(c) prospectively to transactions entered into after date of transition to IFRSs.</u>			
Q5.8 Additional amendments for IFRIC 9, regarding embedded derivatives	in our opinion IFRIC 9 – *Reassessment of Embedded Derivatives* could also be an accounting requirement for which a relief is necessary for first-time adopters applying accounting guidance in compliance with IFRSs.	23	The IASB previously discussed transition relating to embedded derivatives and has stated the following in the Basis for Conclusions to IFRS1: "the Board concluded that the failure to measure embedded derivatives at fair value would diminish the relevance and reliability of an entity's first IFRS financial statements. The Board also observed that IAS 39 addresses an inability to measure an embedded derivative and the host contract separately" (see BC66). Accordingly, staff think that this issue should not be revisited.	None
Q5.9 Additional amendments for IFRIC 12	An other specific situation may be of IFRIC 12 Service Concession Arrangements, which sets out general principals on recognizing and measuring the obligations and related rights in service concession arrangements.	22	IFRS 1.D22 allows a first-time adopter to apply the transitional provisions in IFRIC 12. No specific rationale is provided for this request for exemption. The need for possible amendments to IFRS 1 was considered in developing IFRIC 12. No new information has been provided. Therefore, no change is proposed.	None

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Q5.10 Additional amendments to exempt application of standards under review by IASB at date of first-time adoption	… we would also recommend an additional exemption for first-time adopters of IFRS. Where previous GAAP or national standards are different from IFRS, and that standard is under review by the IASB at the time of the organization's adoption of IFRS, the organization should be exempt from adopting the IFRS, until the review of that standard is finalized by the IASB.	82	This would be unworkable. At any point in time a number of standards are likely to be under review. IFRSs work as a body of standards and to leave out particular standards is not practical.	None
Other comments				
Borrowing costs	The interaction of the transitional requirements of IAS 23 (2007) *Borrowing Costs* with the IFRS 1 exemptions is confusing and may result in diversity in practice. Therefore we recommend that the Board clarify that an entity applies the requirements of IAS 23 (2007) from the date of transition in respect of items to which other exemptions have been applied to allow an entity to grandfather the previous GAAP carrying amount at the date of transition. In some cases it is clear that any borrowing costs capitalised under previous GAAP can be grandfathered. For example, in respect of the proposed exemption in paragraph 19B, it is clear that the entire carrying amount is	89	This issue goes beyond IFRS 1. Staff are aware of other inquiries regarding the transitional provisions for borrowing costs, and recommend that this issue be referred to the Annual Improvements project team for possible consideration.	

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	grandfathered, and BC9 highlights that this may well include borrowing costs. However, in other cases it may be less clear, for example in relation to the exemption for service concession arrangements. While we interpret the service concession exemption to mean that any borrowing costs included in the grandfathered carrying amounts are themselves grandfathered, it would be helpful for this to be clear. On the wider issue of the borrowing costs exemption in general, it would be helpful if the Board could clarify its intent with respect to the interaction of the IAS 23 (2007) transitional requirements and the related IFRS 1 exemption. Diversity in practice may result if some entities misinterpret the exemption as to whether or not a first-time adopter should grandfather, in the carrying amount of a qualifying asset whose construction is complete at the transition date, borrowing costs capitalised to such asset under previous GAAP using a methodology that differs from IAS 23.			