IFRIC Meeting | Agenda reference **6**

Staff Paper | Date **January 2010**

Project **Annual Improvements – 2008-2010 Cycle**

Topic **IAS 27 – Impairment of investments in associates in the separate financial statements of the investor**

Purpose of this agenda paper

1. This agenda paper summarises the staff's analysis of the comment letters received on the IAS 27 *Consolidated and Separate Financial Statements* issue of 'impairment of investments in associates in the separate financial statements (SFS) of the investor' that was included in the exposure draft of proposed *Improvements to IFRSs* published in August 2009. This paper includes:

   (a) **background of the issue**;

   (b) a **summary background of the respondents**;

   (c) **analysis of specific comments** including staff recommendations and questions for the IFRIC; and

   (d) **other issues for this project** and related questions for the IFRIC.

Background of the issue

2. In May and July 2009 (IFRIC Agenda Paper 8[1] and IFRIC Agenda Paper 2G[2], respectively), the IFRIC deliberated a request to consider whether an impairment of investments in associates in the SFS of the investor should apply the requirements

[1] The relevant Observer Note can be obtained at http://www.iasb.org/NR/rdonlyres/594F8EC0-6938-4A77-BC20-053139866149/0/0905ap8obIAS_28Impairment.pdf

[2] The relevant Observer Note can be obtained at http://www.iasb.org/NR/rdonlyres/420E21AF-0D75-4ABE-835B-507BF2D57CF8/0/0907ap2GIAS28Impairmentinseparatefinlstmts.pdf

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRIC.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRIC or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

Decisions made by the IFRIC are reported in IFRIC *Update*.

Interpretations are published only after the IFRIC and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in IASB *Update*.

in IAS 36 *Impairment of Assets* or IAS 39 *Financial Instruments: Recognition and Measurement*. The result of the July 2009 meeting was a final agenda decision included in the July 2009 IFRIC Update that states:

> The IFRIC received a request to consider whether guidance was needed on how impairment of investments in associates should be determined in the separate financial statements of the investor.
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> The IFRIC noted that IAS 36 *Impairment of Assets* provides clear guidance that its requirements apply to impairment losses of investments in associates when the associate is accounted for using the equity method. However, in its separate financial statements, the investor may account for its investment in an associate at cost. The IFRIC concluded that it is not clear whether in its separate financial statements the investor should determine impairment in accordance with IAS 36 or IAS 39 *Financial Instruments: Recognition and Measurement*.
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> In view of the existing guidance in IFRSs, the IFRIC concluded that significant diversity is likely to exist in practice on this issue. The IFRIC decided that it could be best resolved by referring it to the IASB. Therefore, the IFRIC decided not to add this issue to its agenda.

3. In June 2009, the Board deliberated this issue and decided that an impairment of investments in associates in the SFS of the investor should apply the requirements in IAS 39. The Board also decided this issue was appropriate to be included in the Annual Improvements project and should be included in the exposure draft *Improvements to IFRSs* published in August 2009.

4. The Board’s decision to propose an amendment to IAS 27 included both:

   (a) clarification that impairment of investments in associates in the SFS of the investor shall apply the requirements in IAS 39, and

   (b) clarification that in SFS, the focus is on the performance of the assets as investments. Therefore, investments in associates in the SFS of the investor shall be measured either:

      (i) at cost, or

      (ii) at fair value through profit or loss.

   with both (i) and (ii) being in accordance with IAS 39.

Summary background of the respondents

5. A total of 70 comment letters were received on the omnibus exposure draft *Improvements to IFRSs* published in August 2009 (ED). The respondents included accountancy bodies, accounting firms, preparers (and preparer representative groups), regulators, standard setters and others. They represent the major regions of the world including Africa, Asia-Pacific, Europe, North America and international organisations.

6. Of the 70 comment letters received on this ED, 49 comment letters included comments directly on the issue of this paper.

Analysis of specific comments

7. The 49 comment letters addressing this issue covered several specific comment topics. The comment topics include:

   (a) views on the applicable impairment model (IAS 39 v IAS 36);

   (b) clarification of ‘cost’ in accordance with IAS 39;

   (c) clarification of ‘fair value in accordance with IAS 39’; and

   (d) other specific comments.

8. Each of the comment topics are analysed in detail by the staff and staff recommendations are included for each comment topic.

Views on the applicable impairment model (IAS 39 v IAS 36)

9. In the ED, the Board proposed to add a new paragraph 38D to IAS 27. The proposed new paragraph clarifies that:

> When an entity prepares separate financial statements, it shall apply the requirements of IAS 39 for the determination and measurement of impairment losses on investments in subsidiaries, jointly controlled entities and associates.

10. Approximately 60 percent of all respondents to the ED directly commented on the topic to clarify that the provisions of IAS 39 shall be applied for impairment testing purposes in the SFS of the investor. Of the respondents that did comment directly

on this aspect of this proposed amendment, the comments in the appropriate impairment model were split fairly evenly between responses in favour of the use of IAS 39 and responses in favour of the use of IAS 36.

Support for the IAS 39 impairment model

11. Respondents in favour of the proposed amendment (and therefore in favour of the use of IAS 39) had comments that include:

> A We agree that this is an issue that needs to be clarified, and that the Annual Improvements Project is an appropriate place in which to provide that clarification. We also support the proposal that IAS 39's impairment test shall be applied, and we support the proposed insertion into IAS 27 of paragraph 38D to achieve that end. That is because we believe that, in the separate financial statements of the investor, investments in subsidiaries, jointly controlled entities and associates should be tested for impairment as "stand-alone" investments in the same way as other equity instruments. This means the impairment provisions in IAS 39 should be applied to such investments, regardless of whether they are carried at cost or at fair value (as permitted by IAS 27).
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> We recognize that one implication of this is that the impairment model used in the separate financial statements will not be the same as the impairment model used in the consolidated financial statements. However, we do not believe that this need be a concern because the purpose of the two sets of financial statements is different.
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> B We agree with the ED's proposal to clarify that the investor shall apply the provisions of IAS 39…to determine the impairment of its investments in subsidiaries, jointly controlled entities and associates for impairment in its separate financial statements.
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> However, IFRS 9 eliminates the provisions of IAS 39 about measurement at cost of (paragraph 46(c)) and impairment on (paragraph 58 and 66) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. We note that as a result of the elimination of these provisions the ED's proposal will be inconsistent with IAS 39 as amended by IFRS 9 and therefore the proposal need to be modified, accdordingly.
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> C We support the proposed amendment, which will clarify that IAS 39 (rather than IAS 36) should be used for impairment tests of investments in subsidiaries, jointly controlled entities and associates in separate financial statements. We believe that IAS 39 provides more specific guidance than IAS 36 on impairment testing of equity investments… We note however that, in an investor's normal (i.e. not separate) financial statements, investments in associates (and

equity accounted jointly controlled entities) are assessed for impairment based on IAS 39's guidance but tested in accordance with IAS 36 (IAS 28 paragraphs 31 to 34). We question whether it is appropriate and necessary to require different bases for impairment assessment and testing for the same investment in the investor's consolidated and separate financial statements.

D While we agree with the proposal to require application of IAS 39 for the impairment testing of investments in subsidiaries, associates and joint ventures carried at cost, we believe that the wording in the current standards is clear in that IAS 36 should be applied. Paragraph 4 of IAS 36 requires IAS 36 to be applied for impairment testing of these investments. Therefore, we do not support the proposal on the basis that it clarifies the current requirements, but rather on the basis that these investments are financial instruments by nature, and therefore IAS 39 is more appropriate.

Disagreement with the IAS 39 impairment model

12. Respondents against the proposed amendment (and therefore in favour of the use of IAS 36) had comments that include:

A We disagree with the proposed amendment that impairment testing of investments in subsidiaries, jointly controlled entities and associates accounted for at cost in separate financial statements should be performed in accordance with the provisions of IAS 39…as such investments do not have similar characteristics as other type of investments. Instead, we agree with the first view in the Basis for Conclusion that such investments should be accounted for in accordance with the provisions of IAS 36....

B We strongly disagree with the Board's proposal to apply IAS 39 for impairment testing for all investments in subsidiaries, jointly controlled entities and associates. We believe the appropriate Standard to be applied for impairment testing of subsidiaries; jointly controlled entities and associates in the separate financial statements of the investor should be driven by their measurement. In other words, IAS 36 *Impairment of Assets* applies to those investments that are measured at cost (in accordance with IAS 27), whereas IAS 39 applies to those investments that are measured in accordance with IAS 39. Many investments in subsidiaries are currently measured using a value in use model (as permitted by IAS 36). We therefore recommend that the Board amends the scope of IAS 36 to clarify that IAS 36 applies to investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor measured at cost.

Should the IASB proceed as proposed, amendment should be made to delete IAS 36 paragraph 4. IAS 36 paragraph 4 states: "This Standard applies to financial assets classified as subsidiaries, associates and joint ventures."

C We disagree with the Board's proposal that the impairment assessment should be conducted in accordance with IAS 39. We believe that IAS 36 is more appropriate for the impairment assessment of these investments in the parents' separate financial statements, for the following reasons:

- ➢ An impairment assessment would already have been conducted in the consolidated financial statements in accordance with IAS 36. While the investments are presented as an investment, and performance of the investment is assessed in that capacity, the relationship between the parent and the subsidiary or the investee is not the same as any other investment, due to the control or significant influence that the parent has over the actions of the subsidiary/investee. The option to allow cost as a measurement method reflects this, therefore this cannot be ignored for the impairment test.

We also note an additional issue due to the replacement for IAS 39 (i.e., IFRS 9) which has eliminated the cost option (and therefore the impairment testing approach for assets at cost). Therefore, if the Board does require IFRS 9 / IAS 39 to apply, additional impairment requirements will need to be determined for these investments.

D We do not agree with the proposed amendment as we consider it is inconsistent with the new IFRS 9 *Financial Instruments*. We understand that under IFRS 9, all equity investments are carried at fair value and there will be no concept of impairment of the equity instruments as there will be no recycling from other comprehensive income to profit or loss. We are concerned that the proposed amendment may introduce a special measurement category for some equity instruments.

Additional staff considerations

13. The staff emphasises that this proposed amendment issue was deliberated at the May 2009 IFRIC meeting and June 2009 Board meeting (Board Agenda Paper 13B[3]) prior to the Board reaching finalised conclusions for either the ED or final standard in any phase of the Board's IAS 39 replacement project. IFRS 9, issued in November 2009, includes significant changes from current IAS 39 requirements in the treatment of equity instruments including:

(a) All equity instruments must be measured at fair value (including unquoted equity instruments).

[3] The relevant Observer Note can be obtained at http://www.iasb.org/NR/rdonlyres/A5EBCB79-5BDD-4BEA-8D5E-191E3F57FB8F/0/AIP0906b13Bobs.pdf

(b) Changes in the fair value of investments in equity instruments may be presented either in the current period comprehensive income (P&L) or in other comprehensive income (OCI).

(c) There is no impairment model applicable to equity instruments since there is no recycling of gains/ losses from OCI into the P&L at any time for equity instruments.

14. Additionally, other projects on areas related to this issue are on the Board's active agenda, including the Consolidation and Joint Ventures projects.

15. Several comments included the view that while the investments meet the IAS 39 definition of equity instruments, the value of investments in subsidiaries, jointly controlled entities and associates is realised through the long-term holding of and control, joint control or significant influence, respectively. The nature of these investments may not be consistent with small ownership interests in equity instruments held for the purpose of gains in market values.

16. An additional consequence of the view that the nature of these investments is not consistent with other equity instruments is the interaction with the appropriate impairment model(s). If one agrees that the IAS 36 impairment model should be applied in the SFS of the investor to investments in subsidiaries, jointly controlled entities and associates measured at cost, then an additional question can be asked. *Should the IAS 36 impairment model be applied in the SFS of the investor to investments in subsidiaries, jointly controlled entities and associates measured at fair value in accordance with IAS 39?* Follow-up questions then include:

(a) Does the **nature of the investment** and its underlying rationale determine the appropriate impairment model?

(i) The view of 'no' is consistent with using different impairment model for investments in subsidiaries, joint ventures and associates, compared with the impairment model used for financial assets within the scope of IAS 39.

(ii) The view of 'yes' is consistent with traditional financial instruments apply the impairment provisions of IAS 39 regardless of whether the measurement model is cost, amortized cost, FVTOCI or FVTPL.

(b) Does the **measurement model** selected determine the appropriate impairment model?

(i) The view of ‘no’ is consistent with traditional financial instruments apply the impairment provisions of IAS 39 regardless of whether the measurement model is cost, amortized cost, FVTOCI or FVTPL.

(ii) The view of ‘yes’ could be seen as consistent with IAS 16 and IAS 40 where cost accumulation based measurement models apply the impairment provisions of IAS 36 while the remeasurement models do not apply the impairment provisions of IAS 36. The staff does not agree with this rationale given that remeasurement models never have impairments, rather the assets are simply remeasured to FVTPL each reporting period.

17. As a backdrop, the staff remain cognisant that starting with fiscal years beginning on or after 1 January 2013 when the provisions of IFRS 9 are mandatorily effective, there will be no guidance on the impairment testing of investments in equity instruments.

18. Finally, there are potential consequences of modifying the current proposed amendment to reflect that in the SFS of the investor all investments in subsidiaries, jointly controlled entities and associates should apply the provisions of IAS 36 (and not the provisions of IAS 39) regardless of the measurement model selected in accordance with paragraph 38 of IAS 27. That consequence is that in the SFS of the investor, investments in subsidiaries, jointly controlled entities and associates accounted for:

(a) at cost may be impaired with the excess of: 1) cost less 2) the higher of fair value, value in use and zero recognised in the statement of comprehensive income (P&L) (consistent with current paragraphs 105 and 106 of IAS 36), and

(b) at fair value through profit or loss with the excess of: 1) cost less 2) the higher of fair value, value in use and zero recognised either:

(i) in the statement of comprehensive income (P&L) similar to current IAS 39 guidance, or

(ii) nowhere given that IFRS 9 does not have a concept of impairment of equity instruments.

19. Alternatively, some believe that different impairment model(s) are appropriate when different measurement models are applied. This would create the result that in the SFS of the investor, investments in subsidiaries, jointly controlled entities and associates accounted for:

(a) at cost as permitted by paragraph 38(a) of IAS 27 would apply the impairment guidance of IAS 36, and

(b) at fair value in accordance with IAS 39 (and IFRS 9 once adopted) would apply the impairment guidance of IAS 39 (and IFRS 9 once adopted).

20. Given the diversity of alternatives as well as the significant changes in relevant standards since this issue was deliberated by the Board in June 2009, the staff request the IFRIC provide guidance to permit the staff to proceed.

Question 1 – Applicable impairment model (IAS 39 v IAS 36)

What does the IFRIC recommend is the appropriate impairment model(s) to be used in the SFS of the investor for investments in subsidiaries, jointly controlled entities and associates?

Clarification of 'cost' in accordance with IAS 39

21. Many respondents questioned the Board's intent to specify that 'cost' is 'in accordance with IAS 39'. Many respondents pointed to the consequence that IAS 39.46(c) (and paragraph IAS 39.66 for guidance on impairment testing of financial assets carried at cost) only permits the use of cost for unquoted equity instruments.

22. Many respondents also noted the conflict between the proposed amendment and the Board's recently issued IFRS 9 *Financial Instruments* that requires all equity instruments, whether quoted or unquoted, to be recognized in the financial statements at fair value (either in the statement of comprehensive income or in other comprehensive income, with no recycling).

23. Many respondents also point out the lack of information on this topic, in either the invitation to comment or in the Basis for Conclusions to the ED.

24. The staff believes the intention to specify that 'cost' is 'in accordance with IAS 39' was only meant to provide reference to an applicable standard for the application of initial measurement of cost This being in accordance with paragraph 43 of IAS 39 that states:

> When a financial asset or financial liability is recognized initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

25. The staff believes the intent of the proposed amendment was not to restrict the use of cost to only situations specified by IAS 39.46(c) (i.e. unquoted equity instruments whose fair value cannot be reliably measured). This intended link to an applicable standard for the determination of 'cost' was an attempt to remove any potential confusion that may exist. The staff is aware of potential confusion in the meaning of 'cost' due to an IFRIC request to clarify 'How the initial carrying value of an equity method investment should be determined'. That issue was deliberated by the IFRIC at the May 2009 and July 2009 meetings.

26. The staff recommends the proposed reference to IAS 39 for the determination of cost not be finalised.

Question 2 – 'Cost' in accordance with IAS 39

Does the IFRIC agree that the portion of the proposed amendment for investments in subsidiaries, jointly controlled entities and associates in the SFS of the investor measured 'at cost in accordance with IAS 39' should not be finalized (and should remain un-amended as 'at cost')?

Clarification of 'fair value in accordance with IAS 39'

27. The proposed amendment clarifies the Board's intent that in the SFS of the investor investments in subsidiaries, jointly controlled entities and associates should be measured either at cost or at **fair value through profit or loss**.

28. The staff references the Basis for Conclusions on IAS 27 (emphasis added):

> BC65 Paragraph 29 of IAS 27 (as revised in 2000) permitted investments in subsidiaries to be measured in any one of three ways in a parent's separate financial statements. These were cost, the equity method, or as available-for-sale financial assets in accordance with IAS 39.

> Paragraph 12 of IAS 28 (as revised in 2000) permitted the same choices for investments in associates in separate financial statements, and paragraph 38 of IAS 31 (as revised in 2000) mentioned that IAS 31 did not indicate a preference for any particular treatment for accounting for interests in jointly controlled entities in a venturer's separate financial statements. The Board decided to require use of cost or IAS 39 for all investments included in separate financial statements.
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> BC66 Although the equity method would provide users with some profit and loss information similar to that obtained from consolidation, the Board noted that such information is reflected in the investor's economic entity financial statements and does not need to be provided to the users of its separate financial statements. For separate statements, the focus is upon the performance of the assets as investments. The Board concluded that separate financial statements prepared using either the fair value method in accordance with IAS 39 or the cost method would be relevant. Using the fair value method in accordance with IAS 39 would provide a measure of the economic value of the investments. Using the cost method can result in relevant information, depending on the purpose of preparing the separate financial statements. For example, they may be needed only by particular parties to determine the dividend income from subsidiaries.

29. In the staff's opinion, BC65 clearly states that the prior version of IAS 27 permitted three different measurement models of investments in subsidiaries, jointly controlled entities and associates in the SFS of the investor. As stated in BC66, the Board's 2003 revision (and 2008 amendment) to IAS 27 clarified the Board's intent that 'For separate statements, the focus is upon the performance of the assets as investments….Using the fair value method in accordance with IAS 39 would provide a measure of the economic value of the investments."

30. In the staff's opinion, if the intent is to provide a performance measure based on fair value, that performance measure should be appropriately recognised in the statement of comprehensive income (P&L).

31. Numerous respondents disagree with this topic of the proposed amendment to IAS 27. These respondent comments include:

> A …We do, however, object most strongly to the backdoor change proposed in paragraph 38. Without explanation, it is proposed to restrict the alternative to cost from 'according to IAS 39' (i.e. fair value either through OCI or through P&L) to fair value through P&L only.

> We are surprised that the Board is unaware of the sensitivity (and opposition) to the income-effective presentation of unrealized changes in value of financial assets. We see no urgent need to change present wording and many reasons for not doing so. A key show-stopper is the link in various jurisdictions between separate financial statements (increasingly mandated) and tax reporting as well as the potential impact on availability of profit for distribution. This change alone could form a substantial disincentive to entities adopting, or continuing to use, IFRS for their separate statements, especially where they have been reporting at fair value through OCI and would have difficulty in reverting to a cost basis. It is in any case absolutely essential to retain the option to measure these positions at cost.
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> [Respondent] strongly recommends the Board not to change paragraph 38 but to leave it as shown in the consequential amendments from IFRS 9, as recently published, which explicitly confirm the options.
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> B We are not convinced that it is appropriate to restrict the choice of accounting available under existing IAS 39 to investments in subsidiaries, jointly controlled entities and associates. The decision to require measurement at fair value through profit or loss as the only alternative to cost when IAS 39 currently allows an entity to use any of the measurement bases (including in particular available for sale) in IAS 39 is not easily understood.
>
> From the introduction highlighting the Board's intention and from the Basis for Conclusion this amendment is not further explained. We suspect that the suggested amendment should be seen in conjunction with ED/2009/7 *Financial Instruments: Classification and Measurement*. In our view, rather than making this change as part of the annual improvement project it would appear more appropriate to make the change at the same time as the effective date of a new IAS 39.

32. The Board's recent decisions included in IFRS 9 require all equity instruments to be measured at fair value with an option to present the changes in equity instruments in either the statement of comprehensive income (P&L) or in other comprehensive income (OCI).

33. Given this recent decision, the staff recommends the clarification of 'through profit or loss' not be finalised.

Question 3 – 'Fair value in accordance with IAS 39'
Does the IFRIC agree that the portion of the proposed amendment for investments in subsidiaries, jointly controlled entities and associates in the SFS of the investor measured at 'fair value through profit or loss in accordance with IFRS 9 and IAS 39'

should not be finalised (and should remain un-amended as ‘in accordance with IFRS 9 and IAS 39’)?

Other specific comments

34. The staff noted several other comments were noteworthy of consideration by the IFRIC.

Project on separate financial statements

35. A few comment letters encourage the IASB in a project on SFS. One comment letter states:

> …we strongly welcome the initiatives that the IASB takes to deal with the development of an accounting standard for the separate accounts, as it would represent an opportunity to eliminate some grey areas of the IFRSs. A project for improving the accounting standards applicable to the separate financial statements should define the decision-useful information for users given by the separate accounts, in the light of the different purposes with respect to the consolidated accounts. However, any other approach to improving the present few paragraphs dealing with the accounting provisions to be applied in separate financial statements for subsidiaries, joint venture and associates, it would be, in our opinion, incorrect.

36. The staff also notes that paragraphs 5 and 39 of IAS 27 make clear the SFS are in addition to the primary (i.e. consolidated) financial statements of the preparer. To that end, the staff acknowledges that limited guidance specific to SFS currently exists.

37. Therefore, the staff recommends that the Board include SFS on its list of future projects. However, given the Board’s current active projects, the staff recommends an active project not be started until a few of the current active projects are completed and devoted staff resources become available.

Question 4 – Other comments

Does the IFRIC agree with the staff recommendation to recommend the Board include a future project to comprehensively review the accounting in SFS?

Other issues for this project

38. Provided the IFRIC concludes that this project should proceed, the staff requests the IFRIC provide the staff with guidance on the remaining other issues for this project to assist in its finalisation.

Re-exposure

39. The *Due Process Handbook* for the IASB states that after resolving issues arising from the exposure draft, the IFRIC considers whether it should expose its revised proposals for public comment, for example by publishing a second exposure draft. Paragraph 47 of the *Due Process Handbook* states:

> In considering the need for re-exposure, the Board
>
> - identifies substantial issues that emerged during the comment period on the exposure draft that it had not previously considered
> - assesses the evidence that it has considered
> - evaluates whether it has sufficiently understood the issues and actively sought the views of constituents
> - considers whether the various viewpoints were aired in the exposure draft and adequately discussed and reviewed in the basis for conclusions on the exposure draft.

40. The staff is aware that the IFRIC's views on question 1 may result in significant changes to the original proposal published in the August 2009 ED. If this occurs, the staff recommends that the revised proposals be re-exposed. Re-exposure may result in the identification of new issues or accounting alternatives. As the IFRIC believe this issue meets the criteria (necessary, but non-urgent) to be included in the Annual Improvements project, the staff also believes that any benefits from re-exposing the amendment justify the delay in issuing it.

Question 5 – Re-exposure
Subject to the IFRIC's views on question 1, does the IFRIC agree that the revised amendments should be re-exposed and included in the next Exposure Draft of proposed *Improvements to IFRSs* to be published in August 2010?

Effective date

37. If the IFRIC agrees that a re-exposure is necessary, it is likely that the revised proposed amendment will be included in the Exposure Draft of proposed *Improvements to IFRSs* to be published in August 2010 in accordance with the recurring estimated project timetable set out by the Board. Consistent with the recurring timetable, the staff recommends that the final amendment be effective for annual periods beginning on or after 1 January 2012. The staff also recommends that earlier application is permitted; however, if an entity applies the proposed amendment before 1 January 2012, it shall disclose that fact.

Question 6 – Effective date

If the IFRIC agrees with the staff recommendation to re-expose this issue by inclusion within the Exposure Draft of proposed *Improvements to IFRSs* expected to be published in August 2010, does the IFRIC agree with an effective date requiring that an entity shall apply this amendment for annual periods beginning on or after 1 January 2012?

Transition and first-time adoption

38. The ED proposed prospective application. Consistent with most amendments where a fair value measurement model is used, comparative period amounts are often not readily available and would require the use of hindsight to retrospectively restate historical periods.

39. However, subject to the IFRIC’s views on question 1, significant changes may be required to the proposed amendments. If this occurs, the staff will reassess the transition requirements for current IFRS preparers and whether relief should be provided for first-time adopters. The staff will bring proposals on transition and first-time adoption to a future IFRIC meeting.

Other issues

40. Given the significant changes proposed by the staff as well as outstanding questions for the IFRIC the staff have not included draft wording for review at this time. If the IFRIC authorise the staff to proceed with this proposed amendment, the staff plan to update the analysis and incorporate guidance received from the

IFRIC. The staff anticipate bringing this issue back to the IFRIC at a future meeting for further consideration and finalisation of this issue.

Question 8 – Authorisation to proceed with drafting and to ballot

Does the IFRIC approve the staff to proceed with this proposed amendment including drafting and redeliberation at a future IFRIC meeting with the goal of re-exposure of this proposed amendment by inclusion in the next Exposure Draft of proposed *Improvements to IFRSs* to be published in August 2010?