Project IFRS 1 Consequential Amendment from IFRS 7

Topic **Addendum**

Purpose of this agenda paper

1. **This agenda paper is an addendum** (Addendum) to the January 2010 Board Agenda Paper 15 (Agenda Paper 15). This Addendum summarises an additional issue related to the exposure draft *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* (proposed amendment to IFRS 1) (ED) published in November 2009.

2. The additional issue was not raised through either the comment letters received on the ED or through other constituent feedback. The additional issue analysed in this Addendum was identified directly by the staff subsequent to the posting of Agenda Paper 15.

3. This Addendum includes:

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

   (b) **analysis of the issue** including staff recommendations and questions for the Board; and

   (c) **other issues for this project** and related questions for the Board.

Background of the issue

4. In March 2009, the Board issued *Improving Disclosures about Financial Instruments Amendments to IFRS 7 Financial Instruments: Disclosures* (Amendments to IFRS 7). That amendment requires 'enhanced disclosures about fair value measurements and liquidity risk.' It has an effective date of 'annual periods beginning on or after 1 January 2009.' The Board provided entities transition relief from the requirement to present comparative information in the first year of application of the amendment as stated in paragraph 44G of IFRS 7 (emphasis added):

> *Improving Disclosures about Financial Instruments* (Amendments to IFRS 7), issued in March 2009, amended paragraphs 27, 39 and B11 and added paragraphs 27A, 27B, B10A and B11A–B11F. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. In the <u>first year of application</u>, an entity need not provide comparative information for the disclosures required by the amendments. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

5. The reason for providing this transition relief inferred in paragraph BC5A of IFRS 7 is the short lead-time to implementing this amendment:

> In October 2008 the Board published an exposure draft *Improving Disclosures about Financial Instruments* (proposed amendments to IFRS 7). The aim of the proposed amendments was to enhance disclosures about fair value and liquidity risk. The Board received 89 comment letters. After reviewing the responses, the Board issued amendments to IFRS 7 in March 2009. The Board decided to require application of the amendments for periods beginning on or after 1 January 2009. The Board noted that, although the effective date of IFRSs and amendments to IFRSs is usually 6–18 months after issue, the urgent need for enhanced disclosures about financial instruments demanded earlier application.

6. In November 2009, the Board published the exposure draft *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* (Amendment to IFRS 1). The ED proposed that first-time adopters should get relief from presenting comparative information that is equivalent to the transition relief provided to existing IFRS preparers.

7. Agenda Paper 15 includes the staff analysis of the comment letters received on the ED. This Addendum addresses the additional issue identified by the staff that is not addressed in Agenda Paper 15.

8. This additional issue arises when an entity presents more than one year of comparative information. This issue applies to both existing IFRS preparers and first-time adopters (FTAs). The issue relates to the current wording of the transition provisions for current IFRS preparers and the proposed wording included in the ED for FTAs.

Analysis of the issue

Appropriate 'comparative periods'

9. This issue may be best explained by use of an example. Assume a current IFRS preparer (with a calendar year end for this example) that presents 2 years of comparative information. In its first year of application of the Amendments to IFRS 7 (for the year ended 31 December 2009), the financial statements would include current year 2009, comparative year 2008 and comparative year 2007. For these financial statements, only the 2009 disclosures would be required to comply with the Amendments to IFRS 7. The 2008 and 2007 financial statements would not require inclusion of the disclosures required by the Amendments to IFRS 7.

10. However, because of the transition relief currently provided in the Amendments to IFRS 7, when the same entity prepares its 2010 financial statements the transition relief would not be applicable. In the second year of application of the Amendments to IFRS 7, the entity would present current year 2010, comparative year 2009 and comparative year 2008. The comparative year 2009 would include the disclosures required by the Amendments to IFRS 7 (consistent with those required and presented the year before). In addition, the entity would also be required to present the comparative year 2008 disclosures required by the Amendments to IFRS 7 since it is not the entity's 'first application' of the amendment.

11. The Basis for Conclusions to the Amendments to IFRS 7 and the ED focused primarily on the short implementation date and the excessive efforts that may be required to gather additional information for comparative periods. However, the agenda papers supporting both the Amendments to IFRS 7 and the ED reference that the use of hindsight may be required by many entities to determine the comparative information for periods prior to the issue of the Amendments to IFRS 7. Those agenda papers also reference to the Board's general dislike of the use of hindsight. This concept already exists in paragraphs 23–27 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* describing

the limitations on retrospective application and also in paragraphs 41 and 42 of IAS 1 *Presentation of Financial Statements* that requires comparative information unless impracticable.

12. If the Board agrees with the staff opinion, that the rationale for the transition provisions of the Amendments to IFRS 7 includes the potential use of hindsight (in addition to other supporting rationale), the staff believes **in principle** that, regardless of when presented, all comparative periods prior to the issue of the Amendments to IFRS 7 should be exempt from the Amendments to IFRS 7 disclosure requirements.

Question 1 – All comparative periods regardless of when presented
Does the Board agree that the transition provisions of the Amendments to IFRS 7 should be revised to exempt entities from providing the additional IFRS 7 disclosures in comparative periods for which the use of hindsight may be required?

Opening statement of financial position disclosures

13. The staff are also aware that the current transition provisions in the Amendments to IFRS 7 create a technical drafting issue whereby an opening statement of financial position prepared in accordance with paragraph 10(f) of IAS 1 (or paragraph 6 of IFRS 1), while technically within the current period, actually utilises information equivalent to the statement of financial position for the immediately preceding comparative period. Therefore, in the example provided in paragraph 9, an opening statement of financial position as at 1 January 2009 would be required to present the disclosures required by the Amendments to IFRS 7 since it is technically included in the period ‘beginning on or after 1 January 2009’.

14. The staff recommends that the transition provisions applicable to opening statements of financial position should be consistent with the (closing) statement of financial position for the immediately preceding comparative period.

Question 2 – Consistency of application to opening statements of financial position
Does the Board agree that the transition provisions applicable to opening statements of financial position should be consistent with the (closing) statement of financial position for the immediately preceding comparative period?

Transition wording

15. The staff acknowledges the Board's desire to use 1 January or 1 July dates and the context of 'beginning on or after' whenever possible to reduce the timing and type of transition provisions issued by the IASB. In the staff's opinion, as a means to properly implement the Board's principles included in its answers to Questions 1–3 of this Addendum, in this instance the transition provisions must deviate from the Board's primary transition wording preferences. To properly capture the date before which comparative disclosure information is not required, the staff recommend 'for any comparative periods presented **ending before 31 December 2009**'. This timing is broadly consistent with the timing stated in the currently effective paragraph 44G of the Amendments to IFRS 7 for current IFRS preparers. This wording of this timing also addresses the issue of an opening statement of financial position.

16. The staff has performed limited outreach activities to discuss its revised recommended drafting. Of the outreach performed, constituents were in agreement that the revised wording properly captures the staff recommendations included in this Addendum and questions asked to the Board for agreement.

Question 3 – Transition relief for periods ending before 31 December 2009
Does the Board agree to the use of 'ending before 31 December 2009' in this instance to properly capture all comparative periods exempt from the comparative disclosures required by Amendments to IFRS 7?

Other issues for this project

17. Consistent with the Board's prior conclusions included in the ED and Agenda Paper 15, the staff recommends the same transition provisions available to current IFRS preparers should be available to FTAs.

Question 4 – Same transition provisions available for FTAs as current IFRS preparers
Does the Board agree that the transition provisions available to FTAs should be consistent with transition provisions available to current IFRS preparers?

18. Finally, the staff refers the Board to Agenda Paper 15, specifically paragraphs 34 – 39 and its related Questions 5 – 8 regarding re-exposure, effective date, transition and approval to finalise the proposed amendment.

Question 5 – Consequential amendment to IFRS 7
Does the Board agree that the consequential amendment to IFRS 7 (to clarify the transition relief available for comparative disclosures) should not be re-exposed and should be included with the proposed *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*?

Appendix C – REVISED Draft wording of the final amendment

[Appendix omitted from observer note]