Project	**IFRS 1 Consequential Amendment from IFRS 7**
Topic	**Comment Letter Analysis**

Purpose of this agenda paper

1. This agenda paper summarises the staff's analysis of the comment letters received on the exposure draft *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* (proposed amendment to IFRS 1) (ED) published in November 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 Board; and

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

Background of the issue

2. In November 2009, the Board deliberated the interaction of the Board's recently completed *Improving Disclosures about Financial Instruments Amendments to IFRS 7 Financial Instruments: Disclosures* issued in March 2009 and IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

3. Specifically, the Board deliberated a request for guidance on and relief from the provisions in IFRS 1 for first-time adopters that generally requires retrospective application of the current IFRS requirements to all periods presented in the first set of IFRS financial statements.

4. The November 2009 IASB Update states:

> The Board was advised that the transition provisions within the *Improving Disclosures about Financial Instruments* (Amendments to IFRS 7 *Financial Instruments: Disclosures*) issued in March 2009 provide relief in the first year of application from providing comparative information for the disclosures required by the amendment. The Board noted that a first-time adopter applying the provisions of IFRS 1 *First-time adoption of International Reporting*

> *Financial Standards* would not currently receive the same relief from providing comparative information.
>
> The Board reiterated its basis for conclusions on the Amendments to IFRS 7 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. Given the timing of issue of the amendment and the likely use of hindsight required for the disclosures, the Board permitted the first year of application of the amendment to exclude comparative period disclosures required by the Amendment to IFRS 7.
>
> The Board acknowledged that the same justifications from full retrospective application should apply equally to current IFRS preparers and first-time adopters. Consequently, the Board decided to propose an amendment to Appendix E to IFRS 1. The proposed amendment provides relief from the requirement to provide comparative period disclosures required by IFRS 7 to the extent the first IFRS reporting period starts earlier than 1 January 2010.
>
> The Board decided to publish an exposure draft of this proposal in November with a 30-day comment period. The Board expects to finalise the amendment at its January 2010 meeting.

Summary background of the respondents

5. A total of 19 comment letters were received on this ED. All comment letters broadly supported the proposed amendment with several comment letters providing additional detailed comments.
6. The respondents included accountancy bodies, accounting firms and standard setters. They represent the major regions of the world including Africa, Asia-Pacific, Europe, North America, South America and international organisations. Additional information on the respondents is provided in Appendix A to this paper.

Analysis of specific comments

7. The 19 comment letters received covered several specific comments. The comments include:

   (a) an immediate **effective date**;

(b) a direct reference to '**first IFRS reporting period' definition**;

(c) removal of the **early adoption disclosures**; and

(d) **other comments**.

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

Effective date

9. Several respondents recommended that the effective date of the amendment be changed to be effective immediately when issued.

10. One respondent states, in part:

> While we see no harm in the effective date proposed, the effective date of 1 July 2010 means that first time adopters who could use the exemption will need to early adopt the amendment. The amendment is intended to provide relief from disclosures rather than introduce any new requirements which would require a longer lead time to implement. Therefore, in this instance, we also support a decision by the IASB to change the effective date so that it becomes immediately effective when approved.

11. Another respondent goes further stating, in part:

> …we believe that it would be more appropriate if the effective date of the amendment would be set out so that it is in line with the time frame during which first-time adopters can make use of the amendment.
>
> In addition, we would like to emphasise that [respondent] is generally against backdating effective dates. Given the nature of the amendment, we believe that the effective date should be exceptionally backdated to make its application possible.

12. The staff acknowledges that a mandatory effective date of 1 July 2010 for the amendment may necessitate many entities that want to take advantage of the amendment adopting it early. However, in prior projects the staff have been advised by many constituents, that in some jurisdictions for accounting standards (including amendments and interpretations) to become effective the standards must be incorporated into law. In these jurisdictions a formal effective date is needed as part of the statutory process.

13. The staff have also been advised by many constituents that the backdating of new standards is problematic in some jurisdictions and confusing to constituents. In the staff's opinion, the ability to early adopt this amendment provides the ability to obtain the desired relief without creating other potential issues.

14. The staff acknowledges that given the timing of finalizing this amendment that this amendment will provide relief only if the amendment is early adopted. However, in the staff's opinion, the effective date of 1 July 2010 does not restrict entities from obtaining relief from this amendment and in some jurisdictions is a required aspect of the statutory process. Therefore, the staff recommends no change to the effective date included in the ED.

Question 1 – Effective Date
Does the Board agree that the effective date should remain unchanged from the ED for annual periods beginning on or after 1 July 2010 with early adoption permitted?

'First IFRS reporting period' definition

15. One respondent requested the Board to provide clarity regarding the extent of the exemption by including a direct reference to Appendix A *Defined terms* of IFRS 1 for 'first IFRS reporting period'. Specifically, the respondent notes the following amendment to proposed paragraph E3 (new text proposed by the respondent is underlined):

> A first-time adopter may apply the transitional provisions in paragraph 44G of IFRS 7 to the extent that the entity's first IFRS reporting period<u>, as defined in appendix A,</u> starts earlier than 1 January 2010.

16. The staff does not agree with this comment. This amendment only amends IFRS 1. IFRS 1 is the standard an entity must apply when preparing its first IFRS financial statements and this term is already included within both Appendix A of IFRS 1 and the Glossary to the Bound Volume. In this circumstance, the staff does not believe that an IFRS 1 specific term requires cross-reference to its definition within IFRS 1.

17. The staff recommends no change to the proposed amendment for this comment.

Question 2 – 'First IFRS reporting period' definition
Does the Board agree that the term 'first IFRS reporting period' does not require an explicit reference to appendix A of IFRS 1?

Early adoption disclosures

18. One respondent believes that, in the situation where a first-time adopter will have to early adopt this amendment to receive relief from the amendment, disclosing that an entity has early adopted the amendment is not necessary and would distract readers of financial statements.

19. In the staff's opinion, disclosure of early adoption of this amendment will provide clarity for financial statement users as to why comparative information required by IFRS 7 is not provided. Therefore, the staff recommends no change to the proposed amendment for this comment.

Question 3 – Early adoption disclosures
Does the Board agree that the disclosure of early adoption of this amendment should be required, consistent with the ED?

Other specific comments

20. The staff noted other comments that are noteworthy of review by the Board.

IASB work plan, due process and consequential amendments

21. Several respondents stated that while they support this narrow amendment, they believe the IASB should improve the internal processes to ensure future consequential amendments are appropriately identified during the original project. One responded stated, in part:

> ..we would also like to highlight the fact that in our view the Exposure Draft suggests a lack of rigor taken by the Board in preparing the original consequential amendments to IFRSs made necessary by the amendment to IFRS 7 issued in March 2009. We continue to be concerned that the combined effect of ambitious deadlines, shortened periods for comments and deliberations, as well as the heavy workload on the Board's agenda means that this and potentially other consequential amendments fail to be identified at

> the appropriate time, resulting in precious Board time being spent fixing problems that could have been identified had greater attention to such matters been paid originally.

Effective dates and sufficient time to apply amendments

22. One respondent stated, in part:

> We understand that the effective date for this amendment was set out to be in line with how the IASB generally sets out effective dates: on 1 January or 1 July at some point in the future.
>
> [Respondent] notes that in this particular case irrespective of the formal effective date the only way entities could make use of the amendment is by adopting it early in the annual period that finishes before 1 January 2010, ie in the annual period that is currently in progress. We understand that in those jurisdictions that have to endorse the amendment in the local law first, entities might only be able to make use of the amendment if their annual periods finish after the amendment is endorsed. Thus, entities whose annual periods start towards the beginning of the calendar year might not be able to make use of the amendment. The length of the endorsement process (if for example it requires translations in local languages and other procedures to be completed) would have a further effect on the availability of the relief foreseen by the amendment to entities.
>
> While the issue is unavoidable in this particular case (the amendment corrects something that was overlooked in the past), this illustrates that the IASB generally needs to allow sufficient time before entities have to apply amendments, new IFRICs or standards.

23. All new standards (including amendments and interpretations) that permit early adoption may be applied by an entity provided the new standard is issued before the entity publishes its financial statements. In the staff's opinion, the (annual) reporting period end date does not need to be after the date that the new standard is issued for an entity to early adopt a new or amended standard, provided early adoption is permitted.

24. The staff acknowledges that some jurisdictions may include incremental requirements for financial statement reporting including the use of IASB standards only after an endorsement process has been completed. The staff also acknowledges that such incremental requirements imposed by individual jurisdictions may affect the ability of entities in those jurisdictions from early adopting a new standard. However, the manner in which the entity is affected by

such incremental requirements will be jurisdiction-specific and is outside of the Board's control.

25. In the staff's opinion, for the purpose of finalising this amendment, no action is necessary to address these 'other specific comments'.

Question 4 – Other specific comments
Does the Board agree that no specific action is necessary to address the 'other specific comments' prior to finalisation of this amendment?

Other issues for this project

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

Re-exposure

35. The *Due Process Handbook* for the IASB states that after resolving issues arising from the exposure draft, the Board 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.

36. The staff believes that re-exposure would not result in the identification of new issues or accounting alternatives. The staff also believes that any benefits from re-

exposing the amendments would be too minor to justify the delay in issuing it. Therefore, the staff recommends that the Board should not re-expose the revised amendments.

Question 5 – Re-exposure
Does the Board agree that the revised amendments should not be re-exposed?

Effective date

37. If the Board agrees that a re-exposure is not necessary, the staff recommends that the final amendment be effective for annual periods beginning on or after 1 July 2010. The staff also recommends that earlier application is permitted; however, if an entity applies the amendment before 1 July 2010, it shall disclose that fact. This is consistent with the staff's rationale and recommendation included earlier in this paper in the detailed analysis section of the 'Effective date'.

Question 6 – Effective date
Does the Board agree with an effective date requiring that an entity shall apply this amendment for annual periods beginning on or after 1 July 2010?

Transition

38. The ED is silent as to a specific method of application (ie retrospective, prospective, etc.) and therefore, the guidance in IAS 8 states that the amendment will be applied retrospectively. Given that this amendment provides optional relief if early adopted, the staff believe the default retrospective application is appropriate. In addition, this amendment involves only an optional relief from limited comparative disclosures and therefore will not entail significant cost or effort or require an entity to use hindsight to make estimates to implement the amendment.

39. The staff recommends that the Board reaffirm the same retrospective transition as proposed in the ED.

Question 7 – Transition

Does the Board agree with that retrospective transition is appropriate?

Other issues

Question 8 – Authorisation to proceed with drafting and to ballot
Does the Board approve the staff to proceed with this proposed amendment including finalisation of drafting and a ballot to be provided to the Board for finalisation of this project?

Appendix A – Demographic Information on the respondents

A1. A total of 19 comment letters were received on this ED. The specific respondents include:

CL #	Respondents	Classification	Industry	Geography
1	German Accounting Standards Committee (DRSC)	Standard Setter	Accounting	Germany
2	Canadian Accounting Standards Board – Staff	Standard Setter	Accounting	Canada
3	PricewaterhouseCoopers	Accounting Firm	Accounting	International
4	Dutch Accounting Standards Board (DASB)	Standard Setter	Accounting	Netherlands
5	Grant Thornton	Accounting Firm	Accounting	International
6	Accounting Standards Board (ASB)	Standard Setter	Accounting	UK
7	Ernst & Young	Accounting Firm	Accounting	International
8	Deloitte Touche Tomatsu	Accounting Firm	Accounting	International
9	Australian Accounting Stanards Board	Standard Setter	Accounting	Australia
10	South African Institute of Chartered Accountants (SAICA)	Standard Setter	Accounting	South Africa
11	Malaysian Accounting Standards Board (MASB)	Standard Setter	Accounting	Malaysia
12	European Financial Reporting Advisory Group (EFRAG)	Standard Setter	Accounting	European
13	Hong Kong Institute of Certified Public Accountants	Accountancy Body	Accounting	Hong Kong
14	Federation of European Accountants (FEE)	Accountancy Body	Accounting	European
15	Chartered Accountants Ireland	Accountancy Body	Accounting	Ireland
16	Institute of Chartered Accountants of Pakistan (ICAP)	Accountancy Body	Accounting	Pakistan
17	KPMG	Accounting Firm	Accounting	International
18	BDO	Accounting Firm	Accounting	International
19	Brazilian Accounting Pronouncements Committee (CPC)	Standard Setter	Accounting	Brazil

A2. Demographic information on the respondents is as follows:

	Africa	Asia-Pacific	Europe	North America	South America	International	Totals
Accountancy Bodies	-	2	2	-	-	-	**4**
Accounting Firms	-	-	-	-	-	6	**6**
Preparers	-	-	-	-	-	-	**-**
Regulators	-	-	-	-	-	-	**-**
Standard Setters	1	2	4	1	1	-	**9**
Others	-	-	-	-	-	-	**-**
Totals	**1**	**4**	**6**	**1**	**1**	**6**	**19**

Appendix B – Draft wording of the final amendment

A3. Provided the Board agrees with the staff's recommendations, the staff proposes draft wording for the final amendment. All Board edits/ comments are appreciated in preparation for the final amendment balloting.

A4. The staff proposes the following amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. [NOTE: Proposed changes from the ED are shown in track changes (new text is underlined and deleted text is struck through). The final amendment will not include any underlying or strike throughs.]

Paragraph 39C is added.

Effective date

39C *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* (Amendment to IFRS 1), issued in ~~[month year]~~January 2010 added paragraph E3. An entity shall apply that amendment for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

In Appendix E, a heading and paragraph E3 is added.

Disclosures about Financial Instruments

E3 A first-time adopter may apply the transitional provisions in paragraph 44G of IFRS 7 to the extent that the entity's first IFRS reporting period ~~starts~~ begins earlier than 1 January 2010.

In the Basis for Conclusions, a heading and paragraph BCXX is added.

BC~~1~~89B In March 2009, the Board amended the disclosure requirements about financial instruments. Noting the urgent need for enhanced disclosures about financial instruments, the Board demanded earlier application than the usual 6-18 months after issue of a final standard and required application of the amendments for period beginning on or after 1 January 2009. However, the Board acknowledged the concerns received about a short implementation date and decided to provide that in the first year of application, an entity need not provide comparative information for the disclosures required by the amendments. In ~~November 2009~~January 2010, the

Board considered the effects of this amendment on first-time adopters and ~~proposed~~ decided that the same transition provisions should be applicable to the extent that the entity's first IFRS reporting period ~~starts~~ begins earlier than 1 January 2010.