Project	**Annual Improvements Exposure Draft August 2010**
Topic	**IFRS 1 *First-time Adoption of International Financial Reporting Standards* – fixed date in derecognition exception**

Introduction

1. A request was received to replace the fixed date of 1 January 2004 in paragraph B2 of IFRS 1 (relating to the derecognition exception) with 'the date of transition to IFRSs'. The date of 1 January 2004 was originally included as a result of the revision to IAS 39 *Financial Instruments: Recognition and Measurement* in 2003. There are a number of jurisdictions that will be adopting IFRSs in the future. As time passes, the transition date of 1 January 2004 that is 'hard-wired' into the exception becomes more remote from the date these jurisdictions will adopt IFRSs.

Current status of the issue

2. This issue was debated at both the March and the May 2010 Committee meetings. At the May meeting, the Committee reviewed feedback received from members of the National Standard Setters group on the issue. It also considered the approach to transitioning to IFRSs proposed in the March 2009 *Derecognition – Proposed amendments to IAS 39 and IFRS 7* exposure draft. This exposure draft did not clarify whether a fixed or a relative date should be used. The Committee then recommended that the issue is revisited at a later date, once the transition requirements of the proposed *Derecognition* standard are decided.

3. Following the May Committee meeting, the issue was discussed at the May Board meeting as part of the IFRS Interpretations Committee Update session. Some Board members reported that the fixed date in IFRS 1.B2 is unpopular in

many jurisdictions, and that there was support for the fixed date to be changed to a relative one. Further, there was support for making the amendment sooner than later, so as to offer relief to those jurisdictions transitioning to IFRSs in the near future. In light of the discussion, the Chairman of the Board directed the Committee staff to revisit the issue with the derecognition team, and to take a paper to the Committee for further deliberation at their July 2010 meeting.

4. On 24 June 2010, the IASB issued a modified work plan. This states that the focus in the near term for the Derecognition project is on improving and converging disclosure requirements for derecognition transactions between IFRSs and US GAAP. The current Derecognition principles, as stated in IAS 39, will not be replaced as part of the Memorandum of Understanding at this time. Therefore, the fixed date in IFRS 1.B2 will not be addressed by the Derecognition project.

Staff recommendation

5. In Agenda paper 5[1] presented at the May 2010 Committee meeting, the staff noted that there was broad support for changing the fixed date in IFRS 1.B2 to a relative date. The feedback received at the May Board meeting confirmed that constituents are supportive of this fixed date to be removed. The staff recommended in the May paper that the date of 1 January 2004 be changed to 'date of transition to IFRSs'. The staff confirm that recommendation in this paper. The wording of the proposed amendment to IFRS 1.B2 can be found in Appendix A.

6. Given the modification to the work plan discussed in paragraph 4 above, the staff think that making the amendment through the Annual Improvements Process would not be the most expedient solution. This is because the relief offered by the amendment would not be available in time for those jurisdictions planning to adopt IFRS in the near future.

[1] http://www.iasb.org/NR/rdonlyres/957FB3F2-E542-4991-9D8F-D56363501C38/0/1005ap5obsAIPIFRS1fixeddateinderecognitionexception.pdf

7. Therefore, given the encouragement from the Board for this issue to be revisited, the staff recommend that this issue be treated as a separate project for consideration by the Board.

Question for the Committee
Does the Committee agree with the staff's recommendations in paragraphs 5 and 7?

Appendix A – Proposed wording for the amendment to IFRS 1

Appendix B
Exceptions to the retrospective application of other IFRSs

This appendix is an integral part of the IFRS.

Derecognition of financial assets and financial liabilities

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 on or after ~~1 January 2004~~ the date of transition to IFRSs. In other words, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before ~~1 January 2004~~ the date of transition to IFRSs, it shall not recognise those assets and liabilities in accordance with IFRSs (unless they qualify for recognition as a result of a later transaction or event).

B3 Notwithstanding paragraph B2, an entity may apply the derecognition requirements in IAS 39 retrospectively from a date of the entity's choosing, provided that the information needed to apply IAS 39 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.