



Project	Items for Continuing Consideration
Topic	IFRS 1 <i>First-time Adoption</i> - Repeat Application of IFRS 1

Purpose of this paper

1. The purpose of this paper is to document the staff analysis and recommendations relating to a request received in March 2010 to clarify whether an entity can apply IFRS 1 *First-time Adoption of International Financial Reporting Standards* more than once.
2. In May 2010, the Committee tentatively decided that IFRS 1 requires an entity to apply the standard when it meets the scope criteria, even if it has applied IFRS 1 in a previous reporting period.
3. However, the Committee believed that the guidance in IFRS 1 relating to this requirement should be clarified. Consequently, the Committee asked the staff to present at the July 2010 meeting proposed draft wording for an amendment to IFRS 1 that would set out this clarification.
4. This paper:
 - (a) provides background information on this issue;
 - (b) analyses certain other issues relating to the proposed amendment within the context of IFRSs;
 - (c) provides an assessment under the criteria for including a topic on the Committee's interpretation agenda or for including it in the annual improvement process instead;
 - (d) makes a staff recommendation for a tentative agenda decision and for the draft wording for this proposed amendment to IFRS 1; and

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

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 IFRS Interpretations Committee 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 IFRS Interpretations Committee or the IASB can make such a determination.

Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*.

Interpretations are published only after the IFRS Interpretations Committee 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*.

- (e) asks the Committee whether they agree with the staff recommendation.

Background information

5. The Committee received a request identifying an entity that previously reported in accordance with IFRSs to meet foreign listing requirements, and had therefore applied IFRS 1.
6. However, the entity then delisted, and no longer presents its financial statements in accordance with IFRSs, instead reporting only in accordance with its national GAAP.
7. In a subsequent reporting period, the reporting requirements in the entity's local jurisdiction changed from national GAAP to IFRS, and so the entity is again required to present its financial statements in accordance with IFRSs.
8. The request asks the Committee to clarify how the entity should transition back to reporting in accordance with IFRSs, and specifically whether it can apply IFRS 1 for a second time.
9. At the May 2010 Committee meeting¹, the Committee noted that the scope of IFRS 1 requires an entity to apply the standard in its first IFRS financial statements.
10. IFRS 1.3 provides examples of when an entity's financial statements are considered its first IFRS financial statements. These examples are based upon an assessment of whether the entity's **most recent previous** financial statements were presented in accordance with IFRSs.
11. The Committee supported the view that IFRS 1 should be applied when an entity meets the scope requirements of IFRS 1.3, regardless of whether it has previously applied the standard.
12. However, the Committee expressed support for recommending that the Board should amend IFRS 1 as part of *Annual Improvements* to clarify this guidance.

¹ See Agenda Paper 8 of the May IFRS Interpretations Committee Meeting : <http://www.iasb.org/Meetings/IFRIC+Meeting+6+May+2010.htm>

This clarification would state that an entity shall apply IFRS 1 when it meets the scope of the standard, even if it has applied IFRS 1 in a previous reporting period.

13. The Committee asked the staff to present proposed draft wording for this amendment at the next meeting in July 2010.

Staff analysis

14. In drafting the proposed amendment to IFRS 1, the staff considered some other related issues relating to those that were discussed by the Committee at the May 2010 meeting.
15. These issues relate to whether the amendment should:
 - (a) require, or allow, an entity to apply IFRS 1 when it meets the scope criteria, but has applied the standard in a previous reporting period;
 - (b) specifically address an entity that transitions from IFRS for SMEs to IFRSs during a reporting period;
 - (c) clarify whether the requirement to apply IFRS 1 is determined on a reporting entity or a jurisdiction basis;
 - (d) provide guidance on how an entity should identify its previous GAAP when applying IFRS 1; and
 - (e) eliminate use of the word 'first' in the standard.

Should the amendment require, or allow, an entity to apply IFRS 1 more than once?

16. The first issue relates to whether the amendment should require, or allow, an entity to apply IFRS 1 when it meets the scope criteria, but has applied the standard in a previous reporting period.
17. The current scope in IFRS 1.2 states:

An entity **shall** apply this IFRS in:

 - (a) its first IFRS financial statements; and
 - (b) each interim financial report, if any, that it presents in accordance with *IAS 34 Interim Financial Reporting* for part of the period covered by its first IFRS financial statements. (emphasis added)
18. The staff believe that IFRS 1 is clear that, if the scope criteria are met, an entity is **required** to apply the standard.
19. Consequently, IFRS 1 does not provide an entity with a choice of whether to apply IFRS 1. Instead, the entity shall apply IFRS 1 when it meets the scope of the standard, even if the entity has applied IFRS 1 in a previous reporting period.
20. The staff think that this requirement should be retained and clearly stated in the proposed amendment.
21. The staff think that retention of this as a requirement, rather than as a choice, is consistent with the objective of IFRS 1 of providing high quality information that is transparent for users and comparable over all periods presented. It will also reduce the extent of diversity existing in current and future practice.

Should specific guidance be provided for entities transitioning from IFRS for SMEs to IFRSs?

22. In the May Agenda Paper, the staff raised the issue of whether specific guidance should be provided for entities transitioning from IFRS for SMEs to IFRSs in the reporting period.
23. The issue arose because of:

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- (a) the specific guidance in IFRS for SMEs that prevents an entity from being a first-time adopter of IFRS for SMEs more than once; and
- (b) a view that IFRS for SMEs is a specific type of previous GAAP, issued by the IASB, which could be identified separately from a more generic previous GAAP.

24. IFRS 1 currently defines previous GAAP as follows:

The basis of accounting that a first-time adopter used immediately before adopting IFRSs.

25. This definition does not currently distinguish IFRS for SMEs from any other, more generic, previous GAAP that an entity might apply. In addition, IFRS 1 does not specifically discuss entities transitioning from reporting in accordance with IFRS for SMEs to reporting in accordance with IFRSs.
26. Consequently, the staff believe this amendment should be applied to entities transitioning to IFRSs from any previous GAAP, including when an entity's previous GAAP is IFRS for SMEs.
27. However, the staff believe that the specific issue of transitioning from IFRS for SMEs to IFRSs may need to be addressed in the future by either the IASB or the SME Implementation Group.
28. The staff note that in the May 2010 meeting, the Committee expressed a view that it would not make a formal recommendation requesting the Board consider this issue further.

Is clarification required on whether the requirement to apply IFRS 1 is determined on a reporting entity or on a jurisdiction basis?

29. The request received by the Committee also raised the question of whether the requirement to apply IFRS 1 is determined on a reporting entity basis or on a jurisdiction basis.
30. The request identifies that an entity may be required to prepare and present financial statements in different jurisdictions. These jurisdictions may have different adoption dates for requiring financial statements to be prepared and presented in accordance with IFRSs.

31. Consequently, if an entity could apply IFRS 1 on a jurisdiction basis, it would prepare and present IFRS financial statements:
- (a) on a basis consistent with other entities reporting in the specific jurisdiction and adopting IFRSs for the first-time; but
 - (b) that would be different for the same entity in multiple jurisdictions, because the entity prepares and presents different IFRS financial statements relating to each separate date on which it adopts IFRSs in the different jurisdiction.
32. The staff believe that an entity should assess whether financial statements in accordance with IFRS is an entity's first IFRS financial statement on an reporting entity basis, not on a jurisdiction basis. This is because the staff believe that to focus on the reporting entity is consistent with the:
- (a) *Framework:*

12 The objective of financial statements is to provide information about the financial position, performance and changes in financial position *of an entity* that is useful to a wide range of users in making economic decisions. (emphasis added)
 - (b) objective of IAS 1 *Presentation of Financial Statements:*

This Standard prescribes the basis for presentation of general purpose financial statements to *ensure comparability both with the entity's financial statements of previous periods* and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. (emphasis added)
 - (c) focus of IFRS 1.3:

An entity's first IFRS financial statements are the first annual financial statements *in which the entity adopts IFRSs*, by an explicit and unreserved statement in those financial statements of compliance with IFRSs. (emphasis added)

33. The staff also think that the existence of multiple versions of an entity's IFRS financial statements, because the reporting entity prepares and presents financial statements in different jurisdictions, is inconsistent with the objectives of:
- (a) the *Framework* to meet the common needs of most users. This is because the existence of multiple IFRS financial statements for the same reporting entity is likely to be confusing to users.
 - (b) IFRS 1, because the cost of preparing multiple sets of financial statements in accordance with the standard is expected to exceed the benefits.
34. The staff think that the current scope of IFRS 1 is clearly defined as applying to a reporting entity. This scope is not affected if the reporting entity prepares and presents financial statements in multiple jurisdictions.
35. As a result, the staff do not believe that this amendment should provide further clarification on this matter.

How can an entity identify its previous GAAP when applying IFRS 1?

36. When, as noted in the staff analysis above, a view is taken that IFRS 1 should be applied on a reporting entity, rather than on a jurisdiction basis, the question may arise as to how an entity should identify its previous GAAP.
37. This issue arises in a situation when an entity prepares financial statements in two jurisdictions, each of which requires the entity to present the financial statements in accordance with the national GAAP of the jurisdiction.
38. However, in the same subsequent financial reporting period, both jurisdictions simultaneously change to requiring an entity to prepare and present financial statements in accordance with IFRSs, rather than in accordance with national GAAP.
39. As a result, the entity will apply IFRS 1, but must determine which of the jurisdictions' national GAAP should be considered 'previous GAAP' for the purpose of applying the standard.

40. This determination may also lead to a different starting point for the application of IFRSs, because of the exceptions and exemptions in IFRS 1, which effectively ‘grandfather’ some of the entity’s previous transactions.
41. For example, Appendix C to IFRS 1 allows an entity to elect not to apply IFRS 3 *Business Combinations* retrospectively to past business combinations. However, an entity may have accounted for a previous business combination differently in accordance with the different national GAAP of the two jurisdictions in which the entity previously presented financial statements.
42. The staff believe that a reporting entity should apply judgement in this situation in determining which national GAAP should be considered previous GAAP when applying IFRS 1 and applying the disclosure requirements of IFRS 1.23:
- An entity shall explain how the transition from previous GAAP to IFRSs affected its reported financial position, financial performance and cash flows.
43. The staff think that the judgment required in applying IFRS 1 in this situation should not be the subject of the proposed amendment to IFRS 1, because it relates to narrow application guidance of the standard.

Should the amendment eliminate use of the word ‘first’ in the standard?

44. Some are concerned that the title of IFRS 1 ‘*First-time Adoption of International Financial Reporting Standards*’, and the subsequent use of the term ‘first’, may cause misunderstanding, because the amendment will clarify that an entity may be required to apply the standard more than once.
45. The staff acknowledge these concerns, but believe that the amendment will clarify that an entity may be required to apply IFRS 1 more than once, without changing the use of the term ‘first’ in the standard.
46. In addition, the staff are concerned that eliminating the reference to ‘first’, and specifically amending the title of the standard, although it would not be expected to change how entities apply IFRS 1, may, because of its nature, be outside the scope of the Committee and the *Annual Improvements* project.

47. The staff also believe that use of the term ‘first’ does appropriately describe the situation for the majority of entities that apply the standard.
48. As a result, the staff do not propose that the amendment should change the title of the standard or remove the use of the word ‘first’ in IFRS 1. The staff believe that it is also an unnecessary change that would add little to the understandability of the standard.

Staff recommendation

Agenda criteria assessment for the Committee

49. The staff’s assessment of the agenda criteria is as follows:

- (a) *The issue is widespread and has practical relevance.*

Yes.

The staff are aware that the issue of whether an entity can apply IFRS 1 more than once has been raised by current and future adopters of IFRSs in a range of different situations, examples of which were included in the May agenda paper.

Consequently, the staff believe that this issue is potentially widespread across different jurisdictions and that it has practical relevance.

- (b) *The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice). The Committee will not add an item to its agenda if IFRSs are clear, with the result that divergent interpretations are not expected in practice.*

No.

The staff believe that, although IFRS 1 currently requires an entity to apply the standard in its first IFRS financial statements, even if it has applied IFRS 1 in a previous reporting period, IFRS 1 should be clarified in this regard.

The staff understand that in practice, entities have been applying the scope guidance in IFRS 1 even if they have previously been a first-time adopter of IFRSs.

However, the staff are also aware of some uncertainty in practice as to whether an entity can be a first-time adopter of IFRSs more than once.

- (c) *Financial reporting would be improved through elimination of the diverse reporting methods.*

Yes.

The staff understand that, in practice, entities have been applying the scope guidance in IFRS 1 to determine whether an entity should apply the guidance on first-time adoption of IFRSs when presenting its first IFRS financial statements.

When the scope criteria of IFRS 1 are met, entities are applying IFRS 1 even if they have previously been a first-time adopter of IFRSs.

However, the staff are aware of some uncertainty in practice as to whether an entity can be a first-time adopter of IFRSs more than once, and so they believe that an amendment would provide greater clarification and eliminate potential diversity.

- (d) *The issue can be resolved efficiently within the confines of existing IFRSs and the Framework, and the demands of the interpretation process.*

No.

If the Committee believe that further clarification is required to address this issue, the staff believe that the most efficient way of resolving the issue would be through amendments to current IFRSs and not through the interpretation process, because these issues relating to the scope of IFRS 1 are sufficiently narrow.

- (e) *It is probable that the Committee will be able to reach a consensus on the issue on a timely basis.*

Yes.

It is probable the Committee would be able to reach a consensus on these issues on a timely basis.

- (f) *If the issue relates to a current or planned IASB project, there is a pressing need to provide guidance sooner than would be expected from the IASB's activities. The Committee will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the Committee requires to complete its due process.*

Not applicable.

The IASB does not have any current or planned projects on its agenda that are expected to address these issues.

50. Based on the assessment of the agenda criteria above, the staff recommend that the Committee should not add the issue to its agenda, because the staff believe that there are not significantly divergent interpretations in practice.
51. However, the staff believe that the Committee could consider an amendment to IFRS 1 as part of the *Annual Improvement Project (AIP)* to clarify the guidance, because this clarification may be considered a significant amendment.

Assessment against Annual Improvements criteria

52. The current wording of IFRS 1 requires an entity to apply IFRS 1 when certain scope criteria are met. The scope of IFRS 1 does not consider whether an entity has, or has not, previously applied the standard.
53. Consequently the staff believe, which they understand to be consistent with current practice, that an entity is required to apply IFRS 1 when it meets the scope criteria, even if it has applied the standard in a previous reporting period.
54. However, the staff believe that IFRS 1 could be amended to clarify this matter and that the amendment should be considered for AIP.

Assessment against currently used criteria

55. The existing criteria for inclusion in the 2009-2011 *Annual Improvements* cycle are that the change is **non-urgent** and **necessary**.

56. The staff think that the change is non-urgent, because the staff believe that there are not currently significant divergent interpretations relating to this issue in practice.
57. The staff also think that the change is necessary because IFRS 1 does not provide clear guidance relating to this issue, and that the amendment should be made to avoid the emergence of future divergent interpretations of the scope of IFRS 1.
58. The staff also note that the proposed amendment does not change an existing principle, or introduce a new principle into IFRSs.
59. Consequently, the staff believe that the proposed improvement meets the existing criteria for inclusion in the 2009-2011 *Annual Improvements*.

Staff conclusion

60. Based on the assessment of the annual improvement criteria, the staff recommend that the change proposed in Appendix B should be included in the 2009-2011 *Annual Improvements* cycle.
61. This is consistent with the tentative decisions taken by the Committee at the May 2010 meeting.

Effective date and transition

62. The staff believe that the amendment does not change practice, but provides greater clarification. Consequently, the staff believe that early application should be permitted. If an entity applies the amendment, it should comply with the current IFRS 1 disclosure requirements.
63. The staff propose that an entity shall apply the amendment for annual periods beginning on or after 1 January 2012. As stated above, earlier application should be permitted.

Consequential amendment

64. The staff believe that no consequential amendment is needed to any other IFRSs.

Proposed draft wording

65. The staff provide the draft wording for the proposed tentative agenda decision in Appendix A. The proposed wording for the amendment to IFRS 1 is included in Appendix B.

Question 1 – Does the Committee agree with the staff’s recommendation?

1. Does the Committee agree with the staff’s recommendation not to add this issue to its interpretations agenda? If not, how does the Committee recommend the staff to proceed?
2. Does the Committee agree that this amendment to IFRS 1 meets the current criteria for inclusion in the 2009-2011 *Annual Improvements* cycle?
3. Does the Committee have any comments on the proposed wording for the tentative agenda decision in Appendix A and the proposed amendment to IFRS 1 in Appendix B?

Appendix A – Proposed wording for agenda decision

IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Repeat Application of IFRS 1

The Committee received a request identifying an entity that had previously reported in accordance with IFRSs to meet foreign listing requirements, and applied IFRS 1. However, the entity then delisted and no longer presents its financial statements in accordance with IFRSs, instead reporting only in accordance with its national GAAP. In a subsequent reporting period, the reporting requirements in the entity's local jurisdiction change from national GAAP to IFRS, and the entity is again required to present its financial statements in accordance with IFRSs. The request asks the Committee to clarify how the entity should transition back to reporting in accordance with IFRSs, and specifically whether it can apply IFRS 1 for a second time.

The Committee noted that the scope of IFRS 1 requires an entity to apply the standard in its first IFRS financial statements. Paragraph 3 of IFRS 1 provides examples of when an entity's financial statements are considered its first IFRS financial statements. These examples are based upon assessing whether the entity's most recent previous financial statements were presented in accordance with IFRSs.

The Committee concluded that an entity is required to apply IFRS 1 for a second time in the circumstances described. However, the Committee observed that the scope of IFRS 1 is not clearly stated and should be clarified.

Consequently, the Committee [decided] not to add this issue to its agenda. However, the Committee [decided] to recommend that the Board should clarify the guidance relating to the repeat application of IFRS 1 as part of *Annual Improvements*.

Appendix B – Proposed amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraphs 2A and 39F are added.

Scope

- 2 An entity shall apply this IFRS in:
- (a) its first IFRS financial statements; and
 - (b) each interim financial report, if any, that it presents in accordance with IAS 34 *Interim Financial Reporting* for part of the period covered by its first IFRS financial statements.
- 2A An entity is required to apply this IFRS each time it prepares and presents financial statements that meet the definition of its first IFRS financial statements. This requirement exists even if the entity has applied this IFRS in a previous reporting period.

Effective date

- 39F. *Improvement to IFRSs* issued in [date] added paragraph 2A. An entity shall apply this amendment for annual periods beginning on or after 1 January 2012. Early application is permitted.

Basis for Conclusions on proposed amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Repeat application of IFRS 1 First-time Adoption of International Financial Reporting Standards

- BC1 The Board identified the need to clarify whether an entity is required to apply IFRS 1 in its IFRS financial statements if the entity has applied IFRS 1 in a previous reporting period. For example, an entity may have applied IFRS 1 in a previous reporting period to meet listing requirements in a foreign jurisdiction. The entity then delists and no longer presents financial statements in accordance with IFRSs. In a subsequent reporting period, the reporting requirements in the entity's local jurisdiction may change from national GAAP to IFRS. Consequently, the entity is again required to present its financial statements in accordance with IFRSs.
- BC 2 The Board noted that the scope of IFRS 1 focuses on whether an entity's financial statements are its first IFRS financial statements. However, use of the term 'first' raises the question of whether IFRS 1 can be applied more than once.
- BC3 As a consequence, the Board proposes to clarify that an entity is required to apply this IFRS each time it prepares and presents financial statements that meet the definition of its first IFRS financial statements. This requirement exists even if the entity has applied IFRS 1 in a previous reporting period.