IASB/FASB Meeting March 11, 2010

IASB agenda reference **2C**

FASB memo reference **92**

Project **Financial instruments with characteristics of equity**

Topic **Transition for first-time adopters and reclassification disclosures**

Objective

1. The purpose of this memo is to discuss:

   (a) transitional requirements for first-time adopters, and

   (b) disclosure requirements on reclassifications.

Transition provisions for first-time adopters

2. The alternatives for first-time adopters are:

   (a) **Retrospective application**—The underlying principle of IFRS 1. In the first IFRS financial statements, an entity would apply the new requirements to:

      (i) all instruments in existence at the start of the earliest period presented in those financial statements as if the new requirements had always been applied to those contracts (any adjustments will be through opening retrained earnings), and

      (ii) all instruments issued or acquired after the start of the earliest period presented.

   (b) **Limited retrospective application**—Limited exceptions to the underlying principle of IFRS 1. In the first financial statements following the effective date, an entity would apply the new requirements to all instruments outstanding at the beginning of the first period presented (any adjustments will be through opening retrained earnings).

(c) **Prospective application**—An exception to the underlying principle of IFRS 1. An entity would apply the new requirements to all instruments issued or acquired on or after the date of transition to IFRS.

3. We recommend **limited retrospective application** for first-time adopters. In the first IFRS financial statements, an entity would apply the new requirements to all instruments *outstanding* at the beginning of the first period presented. This is consistent with the recommended transitional provision for entities currently applying IFRS. We think the costs outweigh the benefits of a full retrospective application. Prospective application results in a lack of comparability.

4. This recommendation would maintain status quo for IFRS 1. IFRS 1 requires retrospective application of IAS 32. However, compound instruments need not be separated when the liability component is no longer outstanding (IFRS 1 paragraph D18).

Questions
Q1. Does the IASB agree with limited retrospective application for first-time adopters? If not, which transitional provisions do you prefer and why?

5. When reclassification is specifically required, IFRS requires disclosures of the amount, timing and reason for the transfer between liabilities and equity (IAS 1 paragraph 80A and IFRIC 2 paragraph 13). Those instances when reclassification is required will be replaced by the proposals in the forthcoming ED. We recommend that those disclosures are required for share-settled instruments that are transferred from equity to liabilities because there are no longer sufficient authorized shares to settle those instruments.

Questions
Q2. Does the IASB agree to require disclosures of the amount, timing and reason when share-settled instruments are reclassified from equity to liabilities?