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Project

**Annual improvements**

Topic

**IFRS 1 amendment**

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1. We have a problem. With the help of the Hong Kong Institute of CPAs, we may also have a solution.
2. The Board's proposed improvement to IFRS 1 extends the "deemed cost" exception to event-driven revaluations that occurred during the period covered by the initial IFRS financial statements. Given a date of transition of 1/1/X1, an entity's first complete set of IFRS financial statements would be for the year ended 31/12/X2. The amendment would extend the deemed cost exception to event-driven revaluations that occurred during the period from 1/1/X1 and 31/12/X2. Entities that have previously applied IFRS could apply the amendment retroactively "in the first annual period after the amendment is effective."
3. We have learned that there are 17 companies that are registered in Hong Kong that adopted IFRS before 2004, using the old SIC Interpretation 8, and that had the sort of event-driven revaluations described in our amendment. Trouble is, the current draft language amends IFRS 1, but does nothing to SIC 8. It can't. SIC 8 no longer exists.

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## Staff paper – Annual Improvements, IFRS 1

4. We understand that the HKICPA raises this issue now because they assumed the language of the Exposure Draft could be extended to companies that adopted IFRS using SIC 8. The current language is unambiguous and focuses all our attention on the problem.
5. As we see it, this is an issue of equity. The Board has proposed to extend an exception in IFRS 1 for event-driven revaluations, and has proposed to allow retrospective application under tightly controlled boundaries. We cannot find a justification why a company that adopted IFRS in 2003 should not be allowed a similar exception. At the same time, amending literature that no longer exists is going to be awkward. However, the number of companies involved is small and the transition language mentioned earlier constrains the application.
6. The HKICPA has proposed the following:
  - a. In paragraph 39C, change the third sentence as follows:

Entities that adopted IFRS or applied IFRS 1 in a previous period are permitted to apply the amendment retrospectively in the first annual period after the amendment is effective.
  - b. In BC46A, change the last sentence as follows:

An entity that adopted IFRSs ~~and~~ or applied IFRS 1 in a previous period is permitted to apply the amendment retrospectively, provided the measurement date is within the period covered by its first IFRS financial statements.
7. We think the language needs to be more explicit. We propose “adopted IFRS in periods before the effective date of IFRS 1” in both paragraphs to make it clear that this change may affect entities that adopted using SIC 8. In our view, the language should be explicit and leave no room for a current IFRS company to use the exception for an event-driven revaluation that occurred, say, last week. We note also that IFRS 1 has a general prohibition against analogies to its exceptions.
8. The third sentence of paragraph 39 C would now read:

## Staff paper – Annual Improvements, IFRS 1

Entities that adopted IFRSs in periods before the effective date of IFRS 1 or applied IFRS 1 in a previous period are permitted to apply the amendment retrospectively in the first annual period after the amendment is effective.

9. Paragraph B46A would now read:
- a. An entity that adopted IFRSs in periods before the effective date of IFRS 1 ~~and~~ or applied IFRS 1 in a previous period is permitted to apply the amendment retrospectively, provided the measurement date is within the period covered by its first IFRS financial statements.

### Question for the Board

The staff recommends the above changes to the annual improvements amendments to IFRS 1.

Do you agree?