



Project	Annual Improvements Exposure Draft August 2010 Addendum to paper 5
Topic	IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> – fixed date in exemption D20

Introduction

1. In Agenda paper 5¹ for the May meeting of the Committee, paragraphs 9 – 10 of the paper refer to a letter received from a North American preparer representative body, requesting an amendment to exception B2 of IFRS 1. In the same letter, there is a request referring to the D20 exemption in IFRS 1.
2. D20 (Fair value measurement of financial assets or financial liabilities at initial recognition / “day 1 differences”) allows entities to prospectively apply the provisions of AG76 and AG76A of IAS 39 *Financial Instruments: Recognition and Measurement* for transactions entered into after 25 October 2002, or 1 January 2004.

The issue

3. Day 1 differences may arise in circumstances where there is no active market for a financial instrument, and on initial recognition an entity establishes fair value using a valuation technique, for which data inputs are not solely from observable markets.

¹ IFRS 1 *First-time Adoption of International Financial Reporting Standards* – fixed date in derecognition exception

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*.

IFRIC Staff paper

Because the valuation technique will generate an estimated fair value for an instrument, it typically happens that the transaction price of the instrument is different – either more or less. This will give rise to a day 1 difference, which can be positive or negative.

4. In IFRSs, such day 1 differences are required to be deferred, per paragraphs AG76 and AG76A. Therefore, where an entity's previous GAAP does not require deferral of day 1 differences (such as US GAAP's Topic 820 *Fair value Measurements and Disclosures*²), transitioning to IFRS would mean that such an entity will be required to recalculate these day 1 differences for deferral purposes. The transactions that a first-time adopter will need to review, at a minimum, will be those that were entered from 1 January 2004, and which are still outstanding at transition date.
5. The letter states that 'considerable resources would be needed to complete this requirement' and further that 'in many cases we are concerned that it would not be possible to obtain the necessary information'.
6. The letter requests that the fixed dates of 25 October 2002 and 1 January 2004 in exemption D20 are replaced with 'date of transition to IFRSs'.

Staff analysis and recommendation

7. The fixed date of 1 January 2004 was inserted into D20 for the same reason as that date was inserted in exception B2 in IFRS 1; IAS 39 was revised in 2003, and included transitional provisions to allow some relief for existing users of IFRSs adopting the new standard. Therefore, IFRS 1 was amended, so as to place entities then adopting IFRS for the first time in the same position as existing IFRS users at that time. The revision of IAS 39 therefore happened to coincide with the wave of transition to IFRSs in 2005. Whether or not the date was expected to act as a relief mechanism for entities transitioning to IFRSs in the future, was not a debate or a consideration at the time.

² Previously SFAS 157 *Fair Value Measurement*

IFRIC Staff paper

8. In paragraph 21 of Agenda paper 5 for the May 2010 Committee meeting, the staff recommend the following:

'Results of the outreach done indicate that there is strong support for changing the date of January 1, 2004 to 'date of transition to IFRSs'. [In light of the above,] the staff recommend option (a), to change the date of January 1, 2004 to 'date of transition to IFRSs'. The staff recommend, however, that this amendment to IFRS 1 be made as soon as possible.'

9. The staff think that the issue of the fixed dates in IFRS 1.D20 is very similar to that of the issue around the fixed date in IFRS 1.B2. The staff therefore recommend that the fixed dates of 25 October 2002 and 1 January 2004 in exemption D20 are replaced with 'date of transition to IFRSs'. The staff think that it would make sense for this amendment to IFRS 1.D20 to be done at the same time as the amendment to IFRS 1.B2.

Question for the Committee

Does the Committee agree with the staff's recommendation in paragraph 9?