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Project **Effective Date and Transition Methods**

Topic **Early application and early adoption**

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## Purpose

1. This paper provides a discussion to help the boards when they consider whether:
  - (a) early application should be permitted; and
  - (b) IASB-only: first-time adopters of IFRSs should be permitted to adopt IFRSs earlyfor the following projects: revenue recognition, leases, financial instruments and insurance contracts.

## Should early application be permitted?

### *Background*

2. The boards have sought input on whether they should permit entities that currently apply IFRSs or US GAAP to apply the requirements before the mandatory effective date.
3. A small majority of respondents to the IASB's *Request for Views* supported permitting early application of IFRSs. About two-thirds of the respondents to the FASB's Discussion Paper supported the boards permitting early adoption. The majority of the respondents to the FASB's Discussion Paper who represented private companies also stated a strong preference for early

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application. In the joint user survey (IASB Agenda paper 10A/FASB Memorandum 6), the majority of the respondents who commented on early application supported it. Respondents who supported early application cited cost-benefit reasons while those who were against it did so on the basis of comparability concerns.

4. Some supporters of permitting early application thought the boards should attach conditions to early application, such as requiring that interrelated standards should be applied at the same time.

***Staff analysis***

5. We think that the boards have the following options in relation to early application:
  - (a) prohibit early application; or
  - (b) permit early application as a general policy, but assess each of the four projects individually to determine whether early application would be prohibited or conditional.
6. Prohibiting early application would ensure comparability between entities.
  - (a) Not only would peer companies be comparable, it would also allow jurisdictions to translate the requirements into their local language or to be adopted into local law. For example, it could take about six months to a year to get a standard translated and become an official translation, because it has to go through quality control. Similarly, to get a standard adopted into local law could take a year or longer. Consequently, prohibiting early application would ensure comparability across all jurisdictions.

7. We note if there is a substantial period of time between when the standards are issued and the mandatory effective dates, permitting early application could result in non-comparable information during the transitional period. However, we recommend that the boards should permit early application as a presumption that can be overridden on a standard-by-standard basis by comparability concerns. Our reasons are:
  - (a) Users would be given information that is more relevant and faithfully represented sooner. If entities are able to apply the new requirements sooner, we question why entities should continue to prepare financial information using a standard that they knew would soon be obsolete.
  - (b) It allows entities to define their own timetable for implementation of all of the changes being introduced by the new standards, This may help some entities better manage the costs of initial application.
  - (c) Lessons learnt by early applicants could assist others who could benefit from their experiences.
  - (d) Entities such as those that intend to go for an initial public offering (IPO) or who are emerging from bankruptcy may find it preferable to apply the new requirements early to minimise multiple changes to accounting policies over a short period.
8. We note that permitting an entity to early adopt is a normal policy within IFRSs. This is because the IASB typically provides entities with 18 months to apply the new or updated IFRSs. Historically, the FASB has evaluated early adoption on a standard-by-standard basis.
9. We also acknowledge that at times the requirements in the individual standards may make it a priority to require comparability among entities. Consequently, we recommend that the boards should permit early application of standards as a general policy but each individual standards project should determine whether this policy is not suitable in their own case.

**Question 1—Early application**

We recommend that the boards should generally permit early application of standards. However, we think that the boards should assess further each separate standards project to determine whether this policy is appropriate in the context of that project or whether conditions should be applied. Do you agree?

**IASB-only: First-time adoption of IFRSs**

10. Over the next few years, some entities or jurisdictions will apply all of the requirements in IFRSs for the first time.
11. IFRS 1 *First-time adoption of IFRSs* requires first-time adopters to apply the requirements in IFRSs on a retrospective basis, with some exceptions and exemptions. The IASB's policy is to allow early application of its requirements, irrespective of whether that entity is an early adopter or early applicant. Consequently first-time adopters could choose early the requirements in IFRSs before the mandatory effective date.
12. A majority of respondents to the IASB's *Request for Views* and user survey, including those who would prefer the boards to prohibited early application of standards by existing preparers, agreed that the IASB should allow first-time adopters of IFRSs the option to apply the new standards early. They think that this would minimise the costs and changes in accounting policies that a first-time adopter would have to face after adopting IFRSs. Some respondents also noted that many of these first-time adopters could be from developing nations and would not have the resources to do multiple accounting policy changes and this might deter some entities from adopting IFRSs.
13. Some respondents also noted that comparability concerns relating to early application is a less significant issue for first-time adopters.
14. We agree with these respondents and recommend that the Board should confirm its existing policy to allow early application of IFRSs for first-time adopters.

**Question 2—Early adoption of IFRSs**

We recommend that the IASB should permit early application of new IFRSs by first-time adopters of IFRSs. Do you agree?