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Project **IFRS 10 Transitional requirements**

Topic **Meaning of the date of initial application**

Purpose of the paper

1. The IFRS Interpretations Committee received three requests to clarify the transitional provisions in IFRS 10 *Consolidated Financial Statements*. The requests ask for clarification with respect to two different issues that are distinct but related to the transitional provisions in IFRS 10. They are shown in Appendices A, B and C to this paper.

2. The Interpretations Committee discussed these issues in the September 2011 meeting. The IFRIC Update is shown in Appendix D to this paper. The Committee recommended that the Board should consider these issues as a separate project.

General observation

3. As a general observation, it should be noted that an entity shall apply IFRS 10 retrospectively in accordance with IAS 8, except as specified in paragraphs C3-C6. Thus, except where otherwise stated in the transitional provisions, we would expect the requirements in IFRS 10 to be applied retrospectively.

> C1 An entity shall apply this IFRS for annual periods beginning on or after 1 January 2013. Earlier application is permitted. …

C2 An entity shall apply this IFRS retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs C3–C6.

First issue: Meaning of the 'date of initial application' in paragraphs C4-C5

4. The date of initial application is used throughout paragraphs C4-C5. Paragraphs C4 and C5 deal with the transitional provisions to be applied when the consolidation conclusion changes between IAS 27/SIC 12 and IFRS 10. Paragraphs C4-C5 are reproduced in full below (emphasis added).

C4 When application of this IFRS for the first time results in an investor consolidating an investee that was not consolidated in accordance with IAS 27 and SIC-12 the investor shall:

(a) if the investee is a business (as defined in IFRS 3), measure the assets, liabilities and non-controlling interests in that previously unconsolidated investee on the date of initial application as if that investee had been consolidated (and thus applied acquisition accounting in accordance with IFRS 3) from the date when the investor obtained control of that investee on the basis of the requirements of this IFRS.

(b) if the investee is not a business (as defined in IFRS 3), measure the assets, liabilities and non-controlling interests in that previously unconsolidated investee on the date of initial application as if that investee had been consolidated (applying the acquisition method as described in IFRS 3 without recognising any goodwill for the investee) from the date when the investor obtained control of that investee on the basis of the requirements of this IFRS. Any difference between the amount of assets, liabilities and non-controlling interests recognised and the previous carrying amount of the investor's involvement with the investee shall be recognised as a corresponding adjustment to the opening balance of equity.

(c) if measuring an investee's assets, liabilities and non-controlling interest in accordance with (a) or (b) is impracticable (as defined in IAS 8), the investor shall:

(i) if the investee is a business, apply the requirements of IFRS 3. The deemed acquisition date shall be the beginning of the earliest period for which application of IFRS 3 is practicable, which may be the current period.

(ii) if the investee is not a business, apply the acquisition method as described in IFRS 3 without recognising any goodwill for the investee as of the deemed acquisition date. The deemed acquisition date shall be the beginning of the earliest period for which the application of this paragraph is practicable, which may be the current period.

The investor shall recognise any difference between the amount of assets, liabilities and non-controlling interests recognised at the deemed acquisition date and any previously recognised amounts from its involvement as an adjustment to equity for that period. In addition, the investor shall provide comparative information and disclosures in accordance with IAS 8.

C5 When application of this IFRS for the first time results in an investor no longer consolidating an investee that was consolidated in accordance with IAS 27 (as amended in 2008) and SIC-12, the investor shall measure its retained interest in the investee on the date of initial application at the amount at which it would have been measured if the requirements of this IFRS had been effective when the investor became involved with, or lost control of, the investee. If measurement of the retained interest is impracticable (as defined in IAS 8), the investor shall apply the requirements of this IFRS for accounting for a loss of control at the beginning of the earliest period for which application of this IFRS is practicable, which may be the current period. The investor shall recognise any difference between the previously recognised amount of the assets, liabilities and non-controlling interest and the carrying amount of the investor's involvement with the investee as an adjustment to equity for that period. In addition, the investor shall provide comparative information and disclosures in accordance with IAS 8.

5. The issue is whether the date of initial application in IFRS 10 is:

   (a) the beginning of the first reporting period in which the entity adopts IFRS 10 (ie the current period), or

   (b) the beginning of the earliest period presented in the first financial statements in which the entity adopts this standard.

> Example 1: Entity A is a 31 December year-end reporter that applies IFRS 10 for the first time in 2013 (no early application) and that reports a one-year comparative period. Entity A holds an investment in Entity B. Entity B is not consolidated under IAS 27/SIC 12 but would be consolidated under IFRS 10.
>
> Is the date of initial application on 1 January 2012 or 1 January 2013?

6. IFRS 10 does not provide a definition of the date of initial application and the term is not used consistently in the IFRS literature.

7. ED 10 *Consolidated Financial Statements* proposed prospective application of the new requirements from the beginning of the reporting period in which IFRS 10 is applied for the first time.

8. In Agenda Paper 3D presented to the Board in May 2010 (see extracts in Appendix E), the staff proposed:

   (a) that a previously unconsolidated subsidiary that would be required to be consolidated under the new requirements only be required to be consolidated from the date of application of the new requirements (ie 1 January 2013 in Example 1);

   (b) that, if practicable, the initial measurement of the new subsidiary's assets, liabilities and non-controlling interests be calculated as though the new consolidation requirements had always applied;

   (c) that similar principles should be applied when the new consolidation requirements result in a reporting entity no longer consolidating an entity that was previously consolidated, ie the entity should be deconsolidated from the date that the new requirements are first applied (ie 1 January 2013 in Example 1);

   (d) to allow but not require adjustment of comparative information.

9. The Board accepted these principles except that it decided to require adjustment of comparative information, with any adjustments recorded in equity at the beginning of the earliest comparative period (ie 1 January 2012 in Example 1).

10. Consequently, when writing the transitional requirements in IFRS 10, the intention of the staff was to reflect this decision as follows:

   (a) the date on which an entity should assess whether the consolidation conclusion is changed (or unchanged) between IAS 27/SIC 12 and IFRS 10 (ie the date of initial application) is the beginning of the reporting period in which IFRS 10 is applied for the first time (ie 1 January 2013 in Example 1);

(b) if the consolidation conclusion is changed when IFRS 10 is applied for the first time, the entity is required to adjust the comparative information as if the requirements of IFRS 10 had always been applied, with any adjustments recorded in equity at the beginning of the earliest comparative period (ie 1 January 2012 in Example 1). The timing of the adjustment was however subject to impracticability such that the adjustment may instead be in a later period.

11. We note that there are different views on how the transitional provisions in IFRS 10 as written should be applied. In order to clarify the transitional provisions in IFRS 10, we recommend that the Board should:

(a) add a definition of the date of initial application in IFRS 10, which would be the beginning of the reporting period in which IFRS 10 is applied for the first time.

(b) make it clear in paragraph C4 (a) and C4 (b) that any adjustment to the accounting for the investor's involvement with the investee should be recognised in equity at the beginning of the earliest comparative period presented (when practicable).

(c) make it clear in paragraph C4 (c) that any adjustment to the accounting for the investor's involvement with the investee should be recognised in equity at the deemed acquisition date (when impracticable).

(d) make it clear in paragraph C5 that any adjustment to the accounting for the investor's involvement with the investee should be recognised in equity:

(i) either at the beginning of the earliest comparative period or, if control was lost at a later date, on the date the investor lost control of the investee (if practicable); or

(ii) if practicability issues exist, at the beginning of the earliest comparative period for which application of this IFRS is practicable, ie the date on which the loss of control is deemed as having occurred.

12. The proposed amendments to paragraphs C4-C5 are shown in full below (changes underlined):

C4 When application of this IFRS for the first time results in an investor consolidating an investee that was not consolidated in accordance with IAS 27 and SIC-12 the investor shall:

> (a) if the investee is a business (as defined in IFRS 3), measure the assets, liabilities and non-controlling interests in that previously unconsolidated investee on the date of initial application as if that investee had been consolidated (and thus applied acquisition accounting in accordance with IFRS 3) from the date when the investor obtained control of that investee on the basis of the requirements of this IFRS. Comparative periods are adjusted retrospectively and any difference between the amount of assets, liabilities and non-controlling interests recognised and the previous carrying amount of the investor's involvement with the investee at the beginning of the earliest comparative period presented shall be recognised as a corresponding adjustment in equity to the opening balance at that date.
>
> (b) if the investee is not a business (as defined in IFRS 3), measure the assets, liabilities and non-controlling interests in that previously unconsolidated investee on the date of initial application as if that investee had been consolidated (applying the acquisition method as described in IFRS 3 without recognising any goodwill for the investee) from the date when the investor obtained control of that investee on the basis of the requirements of this IFRS. Comparative periods are adjusted retrospectively and any difference between the amount of assets, liabilities and non-controlling interests recognised and the previous carrying amount of the investor's involvement with the investee at the beginning of the earliest comparative period presented shall be recognised as a corresponding adjustment in equity at that date.
>
> (c) if measuring an investee's assets, liabilities and non-controlling interest in accordance with (a) or (b) is impracticable (as defined in IAS 8), the investor shall:
>
> > (i) if the investee is a business, apply the requirements of IFRS 3. The deemed acquisition date shall be the beginning of the earliest period for which application of IFRS 3 is practicable, which may be the current period.

(ii) if the investee is not a business, apply the acquisition method as described in IFRS 3 without recognising any goodwill for the investee as of the deemed acquisition date. The deemed acquisition date shall be the beginning of the earliest period for which the application of this paragraph is practicable, which may be the current period.

<u>Comparative periods are adjusted retrospectively and</u> the investor shall recognise any difference between the amount of assets, liabilities and non-controlling interests recognised at the deemed acquisition date and any previously recognised amounts from its involvement as an adjustment to equity <u>at the deemed acquisition date</u>. In addition, the investor shall provide comparative information and disclosures in accordance with IAS 8.

C5 When application of this IFRS for the first time results in an investor no longer consolidating an investee that was consolidated in accordance with IAS 27 (as amended in 2008) and SIC-12, the investor shall measure its retained interest in the investee on the date of initial application at the amount at which it would have been measured if the requirements of this IFRS had been effective when the investor became involved with, or lost control of, the investee. <u>Comparative periods are adjusted retrospectively and any difference between the previous amount of assets, liabilities and non-controlling interests recognised and the carrying amount of the investor's involvement with the investee at the beginning of the earliest comparative period presented or, if later, on the date that control was lost, shall be recognised in equity to the opening balance at that date.</u>

If measurement of the retained interest is impracticable (as defined in IAS 8), the investor shall apply the requirements of this IFRS for accounting for a loss of control at the beginning of the earliest period for which application of this IFRS is practicable, which may be the current period. The investor shall recognise any difference between the previously recognised amount of the assets, liabilities and non-controlling interest and the carrying amount of the investor's involvement with the investee <u>at the beginning of the earliest period when the loss of control is deemed as having occurred</u> as an adjustment to equity <u>at that date</u>. In addition, the investor shall provide comparative information and disclosures in accordance with IAS 8.

Question to the Board
Does the Board agree with the amendments proposed above to clarify paragraphs C4-C5 of the transitional provisions in IFRS 10?

Second issue: Identifying the circumstances in which paragraph C3 applies

13. The transitional provisions in paragraph C3 provide an exemption to the retrospective application: an entity is not required to adjust the accounting for its involvement with entities if the consolidation conclusion is <u>not</u> changed between IAS 27/SIC 12 and IFRS 10 when applying IFRS 10 for the first time.

> C3 When applying this IFRS for the first time, an entity is not required to make adjustments to the accounting for its involvement with either:
>
> (a) entities that were previously consolidated in accordance with IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation—Special Purpose Entities and, in accordance with this IFRS, continue to be consolidated; or
>
> (b) entities that were previously unconsolidated in accordance with IAS 27 and SIC-12 and, in accordance with this IFRS, continue not to be consolidated.

Question 1: What is the meaning of the sentence 'when applying IFRS 10 for the first time' in paragraph C3?

14. The issue is to determine on which date an entity should assess whether the consolidation conclusion is <u>not</u> changed under IAS 27/SIC 12 and IFRS 10. Paragraph C3 states that this assessment is made <u>when applying IFRS 10 for the first time</u>. Does it mean that the assessment is made at:

    (a) the beginning of the earliest comparative period in the first financial statements in which IFRS 10 is applied?

    (b) the beginning of the reporting period in which IFRS 10 is applied for the first time?

15. As a general observation, we think that the transitional provisions should be consistent as a whole. As mentioned above, the staff's intention when writing the transitional provisions of IFRS 10 was that the date on which an entity should assess whether the consolidation conclusion is changed (or unchanged) between IAS 27/SIC 12 and IFRS 10 is the beginning of the reporting period in which IFRS 10 is applied for the first time (ie 1 January 2013 in Example 1). In other words, the intention of the staff was that an entity is not required to retrospectively adjust its comparative period(s) if the consolidation conclusion is the same between IAS 27/SIC 12 and IFRS 10 on 1 January 2013 (for an entity that does not opt for an earlier application of IFRS 10).

16. Paragraph C3 was included in response to comments raised and was intended to provide a form of transition relief. If the consolidation conclusion would be the same at the date that IFRS 10 was first applied, any incremental benefit for users was not considered to be sufficient to justify the cost and inconvenience for preparers of having to essentially recalculate carrying amounts for transactions for which the consolidation outcome would be unchanged.

Question to the Board
Does the Board agree that the meaning of the sentence 'when applying IFRS 10 for the first time' is the beginning of the reporting period in which IFRS 10 is first applied? Does the Board agree that an entity is not required to adjust the accounting for its involvement with an investee if the consolidation conclusion is not changed at the beginning of the reporting period in which IFRS 10 is first applied?

Question 2: Does the exemption in paragraph C3 apply when the consolidation conclusion under IAS 27 and IFRS 10 is not changed because the investee has been disposed of in the comparative period(s)?

17. An example of when this makes a difference is when, at the beginning of the comparative period, the IAS 27 assessment is for non-consolidation and the IFRS 10 assessment is for consolidation but the entity <u>is disposed of</u> in the comparative period(s).

> Example 2: Entity C, a calendar year-end entity, applies IFRS 10 for the first time in its annual financial statements ending 31 December 2013. Entity C presents one year comparative period. Entity C holds an investment in Entity D. Entity D is not consolidated under IAS 27 but would be consolidated under IFRS 10. Entity C disposes of its investment in Entity D during 2012. In this example, the consolidation conclusion is the same between IAS 27/SIC 12 and IFRS 10 on 1 January 2013 because of the disposal of Entity D during the comparative period (but not because of the control requirements of IAS 27/SIC 12 and IFRS 10).
>
> Does the exemption in paragraph C3 apply in that case?
>
> If the exemption does not apply, the investee should be consolidated under IFRS 10 from 1 January 2012 until the date Entity C disposed of it in 2012.

18. This fact pattern was not raised prior to the issue of IFRS 10. It was not contemplated in drafting the transition relief in C3.

19. We note that if the exemption in paragraph C3 does not apply to this fact pattern, restatement of comparative information would be required (ie consolidation of the entity at the beginning of the comparative period and then accounting for its disposal later in that period). Some argue that this would provide little relevance to users and would be burdensome, particularly in jurisdictions where several years of comparatives are required. Others argue that this exemption would lead to an inconsistent treatment and would not permit comparability if similar investments are disposed of in the current period. However, it is also noted that paragraph C3 was added in order to provide transitional relief from full retrospective application when the incremental benefits were not considered to outweigh the costs.

20. The staff are of the view that paragraph C3 (b) can already be read to provide relief in this situation. Paragraph C3 only requires that the consolidation conclusion is not changed when IFRS 10 is applied for the first time regardless of the reason for there not being a change in the conclusion. It does not require that this conclusion should be based solely on the control requirements in IAS 27/SIC 12 and IFRS 10.

21. We question whether the incremental benefits to users of requiring full retrospective application in this case (for essentially temporary consolidation) would outweigh the costs for preparers. We also note that the staff believe that the main focus was on ensuring consistent accounting for transactions as at the date IFRS 10 was first applied (ie 1 January 2013 assuming no early application).

22. The staff therefore recommend that transition relief should be clarified for this case and that a description of this specific circumstance be added to the exemption in paragraph C3. The proposed wording of new paragraph C3A would be the following:

> C3A When applying this IFRS for the first time, an entity is not required to make adjustments to the accounting for its involvement with an entity that was disposed of in the comparative period(s) or for which control was lost in the comparative period(s).

Question to the Board
Does the Board agree with the wording proposed in paragraph 3A that an entity is not required to make adjustments to the accounting for its involvement with an entity that was disposed of in the comparative period(s) or for which control was lost in the comparative period(s)?

Appendix A: submission 1

Suggested agenda item/candidate for annual improvement: Transition to IFRS 10 – Interest in entity disposed of in the comparative period

It has come to our attention that the transitional provisions of IFRS 10 are unclear with respect to interests in entities disposed of in the comparative period of the first annual financial statements in which IFRS 10 is applied.

We are seeking clarification of this issue by the Committee or, ideally, via the Annual Improvements Project.

The Issue

IFRS 10.C3(b) offers relief from applying the requirements of the Standard to "entities that were previously unconsolidated in accordance with IAS 27 and SIC-12 and, in accordance with this IFRS, continue not to be consolidated", but it is unclear whether this exemption applies to entities which are not consolidated in the current period under IFRS 10 because of a disposal of the interest in the comparative period.

Example

Entity A, a calendar year-end entity, holds an investment in Entity B which it does not consolidate under the requirements of IAS 27 and SIC-12 but would consolidate under the requirements of IFRS 10.

Entity A disposes of its investment in Entity B in 2012, then applies IFRS 10 for the first time in its annual financial statements for the year ending 31 December 2013.

Does the exemption in IFRS 10.C3(b) apply to Entity A's previous interest in Entity B?

Alternative views

Exemption applies

Proponents of this view note that Entity B was not consolidated under IAS 27 and SIC-12 and will not be consolidated in any reporting period for which IFRS 10 is applied, that comparative information only supports the current period information and that, accordingly, the criteria of IFRS 10.C3(b) are met.

Proponents also argue that restatement of comparative information in these circumstances (i.e. consolidation of Entity B at the beginning of the comparative period and then accounting for its disposal later in that period) would provide little predictive or confirmatory information to users and that, therefore, the additional information would have little relevance to users (as that term is defined in the Conceptual Framework for Financial Reporting). The minimal informational value provided by restatement should also be considered in the context of the possible practical difficulties in its production as, in the circumstances described, Entity A would have had no need prior to its disposal for the information required to consolidate Entity B. Subsequent to the disposal, Entity A may not have access to that information.

Exemption does not apply

Proponents of this view consider that the exemption in IFRS 10.C3(b) applies only to investments in entities which continue not to be consolidated under IFRS 10 because the definition of control in that Standard is not met. Whilst IFRS 10.C3 does not refer to the 'date of initial application', this term is used throughout the paragraphs addressing transitional requirements and proponents consider that the 'date of initial application' of IFRS 10 should be taken to mean the beginning of the earliest comparative period – 1 January 2012 in this example – and Entity B would have been consolidated under that Standard between that date and the date of disposal.

Proponents also note that this interpretation would give a treatment consistent with that of similar investments disposed of in the reporting period (2013 in this example) and thus provides additional comparability – particularly if there are similar transactions in the current period.

Reason for IFRIC to Address the Issue

We believe that this issue should be addressed in a timely manner as it will largely impact the preparation of financial statements in the next two to three years and situations of the type discussed are unlikely to be uncommon in certain structured transactions.

Furthermore, the absence of a definition of the term 'date of initial application' in IFRS 10 could contribute to a lack of clarity over the transitional provisions as a whole, particularly when the Standard is translated into languages other than English.

Appendix B: submission 2

We would like to clarify with you the transitional accounting aspects with respect to IFRS 10 – *Consolidated Financial Statements* (IFRS 10). The effective date of IFRS 10 is for periods beginning on or after 1 January 2013. Specifically, we would like to clarify what the 'date of initial application' of IFRS 10 is, (assuming a 31 December year-end reporter), either 1 January 2012 or 1 January 2013. We have had several debates in this regard and there appears to be differing views as to the application of the transitional requirements of IFRS 10.

1) Consistency with other standards and the use of the reference; date of initial application

One of the reasons for our question is to ensure that our interpretation of the date of initial application is consistent with that applied/ interpreted with reference to other standards.

Eg1) IFRS 9 defines the date of initial application as the **date when an entity first applies the requirements of this IFRS** [IFRS 9.7.2.2(b)]. Further one is required to apply IFRS 9 retrospectively (with some exceptions) and financial assets that are derecognized prior to the date of initial application shall be treated in terms of IAS 39);

This implies that for a 1 January 2013 reporter that the date of initial application is 1 January 2013 – assuming that we elect to apply IFRS 9 for our 2013 annual financial period.

Eg2) *Disclosures – Transfers of Financial Assets* (Amendments to IFRS 7) issued in October 2011, paragraph 44M states that: *"An entity shall apply those amendments for annual periods beginning on or after 1 July 2011. Earlier application is permitted. If an entity applies the amendments from an earlier date, it shall disclose that fact. An entity need not provide the disclosures required by those amendments for any period presented that begins before the* ***date of initial application of the amendments****.'*

This implies that we can apply the requirements of IFRS 7 (amendments) from 1 January 2013 (being the date of initial application) – the transitional requirements then specifically state that we need not provide comparative disclosures.

With reference to IFRS 10, we note the following:

- IFRS 10.C2: IFRS 10 shall be applied retrospectively, except as specified in C3-C6.
- IFRS 10.C4: *'when the application of this IFRS for the first time results in the investor consolidating an investee that was not consolidated in accordance with IAS 27 and SIC-12 the investor shall measure the assets, liabilities and non-controlling interests in that previously unconsolidated investee on the date of initial application as if that investee had been consolidated (and thus applied acquisition accounting in accordance with IFRS 3) from the date when the investor obtained control of that investee on the basis of the requirements of this IFRS.'*
- IFRS 10.C4(c)(i) states that if the above is impracticable, the deemed acquisition date shall be the beginning of the earliest period, which may be the current period.

We question whether the reference to initial application in IFRS 10 (being application for the first time) is consistent with IFRS 9 (being the date when the entity first applies the requirements of this IFRS [IFRS 9]), or whether IFRS 9 is referring to the date of initial application as 1 January 2013 and IFRS 10 as 1 January 2012, as implied by the following:

View 1: Assuming that 1 January 2012 is the date of initial application, then that would be the date on which we should apply the requirements of IFRS 10 in determining which entities are required to be consolidated and which should not, with the assets and liabilities being measured on that date as though we had always controlled the entity. Similar provisions would apply to entities that we do not control that we previously did state we controlled in terms of IAS 27 (except that the retained interest will be measured).

View 2: Assuming that 1 January 2013 is the date of initial application, then IFRS 10 appears to imply that one should consider the prevailing facts and circumstances in terms of IFRS 10 on 1 January 2013 and apply that retrospectively (i.e. consolidate or not consolidate) to the date on which we obtained control. That application should then be applied retrospectively to restate the group's 2012 financial results on the basis of circumstances that existed as at 1 January 2103. Similarly to the application of IFRS 9 (i.e. consider business model and contractual terms of instruments as at 1 January 2013 and if assets had been derecognized prior to 1 January 2013 then those assets would be treated in terms of IAS 39 for comparative reporting purposes), if we controlled an entity in terms of IAS 27 on 31 December 2011 but lost control and still had no control in terms of IFRS 10 prior to 1 January 2013 (date of initial application), then we would continue to apply IAS 27 to the previous year's financial statements (i.e. 2012 comparative statements). Naturally this could result in a mixture of IAS 27 and IFRS 10 application for the comparative financial statements, but it is no different to what results through application of IFRs 9. C4(c)(i) does not however appear to support this given its reference to impracticability and the application of that paragraph to the current period.

Considering the date on which the amendments were issued and the time until which the requirements are to be applied, we question whether it was the IASB's intention that View 2 be applicable in line with similar principles that are applicable to IFRS 9. If the date of initial application is 1 January 2012, then one needs to ensure that all circumstances are evaluated on 1 January 2012 thereby leaving much less time to apply the standard than if 1 January 2013 was considered to be the date of initial application.

Appendix C: submission 3

As a result of the IFRS Interpretations Committee's discussion at its September 2011 meeting regarding the IFRS 10 transitional requirements, more specifically the meaning of 'the date of initial application', we understand a decision on the interpretation of this term could have a significant practical impact on many entities applying the Standard.

We appreciate, per the comments in the September IFRIC Update, the Committee has noted the possible need for an exception to be added to the transitional requirements if the intention of the Board was to provide an exception to retrospective application for the involvement in entities that are disposed of or whose control is lost in the comparative period(s). However, we wanted to bring to your attention one of the practical implications if an exception is not provided and retrospective application is required in the comparative period.

The concern brought to our attention relates to an entity that held an investment in an entity in the comparative period but did not have that holding at any time during the current period that previously under IAS 27 *Consolidated and Separate Financial Statements* did not constitute control but under IFRS 10 would be considered controlled and require consolidation. If the term 'the date of initial application' is interpreted as 'the beginning of the earliest period presented', this would require the entity to apply the requirements of IFRS 10 to these investments, which practitioners foresee would be burdensome and the costs would outweigh the benefits, particularly considering the entity no longer has an interest in these entities. In addition, the costs could be significantly burdensome for entities, such as entities in the US, that are required to disclose 5 years of comparatives.

We believe IFRS 10 is currently unclear on the transitional requirements and to enable entities to early adopt the Standard, needs to be addressed promptly providing clarification of the intended requirements, having regard to cost/benefit considerations.

Appendix D: IFRIC Update September 2011

IFRS 10 Consolidated Financial Statements —transitional requirements, meaning of 'the date of initial application'

The Interpretations Committee received a request to clarify the meaning of 'the date of initial application' in the transitional requirements of IFRS 10 Consolidated Financial Statements. IFRS 10 does not provide a definition of the date of initial application and the submission received noted that this term is used with different meanings in different IFRSs.

The issue considered by the Committee is whether the date of initial application in IFRS 10 is:

(a) the beginning of the reporting period in which the entity adopts IFRS 10; or

(b) the beginning of the earliest period presented in the financial statements in which the entity adopts IFRS 10.

The Committee noted that the general transition requirements in IFRS 10 are for retrospective application, and in the absence of any exceptions, the Committee would expect this to result in application of all the requirements of IFRS 10 from the beginning of the earliest period presented, ie that the date of initial application should be the beginning of the earliest period presented in the financial statement in which the entity adopts IFRS 10.

The Committee noted the lack of definition of 'the date of application' of IFRS 10 and suggested that if the intention of the staff when drafting IFRS 10, and the intention of the Board when finalising the standard, was to provide an exception to the retrospective application for the involvement in entities that are disposed of or whose control is lost in the comparative period(s), then an exception should be added to the transitional requirements in IFRS 10 to make this clear.

The Committee decided that rather than attempting to address this issue through an annual improvement, it would be best to recommend that the Board should consider this issue for separate amendment.

The Committee also suggested to the Board that it should add a definition for 'the date of initial application' to the Glossary of Terms.

Appendix E: Extracts of Agenda paper 3D (May 2010)

13 Therefore, we recommend that the boards affirm that a previously unconsolidated subsidiary that would be required to be consolidated under the new requirements only be required to be consolidated from the date of application of the new requirements.

14 The question then arises as to what is the best way to initially measure the assets and liabilities of the newly consolidated subsidiary at the date of first applying the new consolidation standard. As outlined below, we propose that, if practicable, the initial

measurement of the new subsidiary's assets, liabilities and non-controlling interests be calculated as though the new consolidation requirements had always applied.1

15 A reporting entity would not be required to adjust comparative information, but should be allowed to restate comparative information if it wishes to do so. This is consistent with the transition requirements in Statement No. 167.

26 We believe that similar principles can be applied when the new consolidation requirements result in a reporting entity no longer consolidating an entity that was previously consolidated. The entity should be deconsolidated from the date that the new requirements are first applied. Similar considerations to those set out above arise in determining the initial carrying amount for the interests in the newly deconsolidated entity.

27 Some of those entities will subsequently be accounted for according to the equity method. We believe that the reporting entity would normally have the information available to apply the equity method as if the new requirements had always applied because it has previously consolidated the entity. The appendix of this agenda paper discusses some application issues associated with that approach.

28 Should the reporting entity neither have joint control nor significant influence over the formerly consolidated entity, we believe that the reporting entity should recognise its interest in the previously consolidated entity and measure that interest at fair value as of the date when it applies the revised consolidation requirements for the first time.

29 Consistent with our recommendations for a newly consolidated subsidiary, we recommend that comparative information is not required to be restated if a previously consolidated entity is deconsolidated. However, an entity should be allowed to elect to present comparatives if it wishes to do so. This is consistent with the transitional requirements in Statement No. 167.

[1] When measuring the assets, liabilities and non-controlling interests the reporting entity would apply each IFRS/ASC Topic effective at the end of the current reporting period.

Appendix F: Comment letter

Dear IFRS Interpretations Committee members,

Issues with recommendations not to be added to Annual Improvements – IFRS 10 *Consolidated Financial Statements* – transitional requirements, meaning of 'the date of initial application'

The global organisation of Ernst & Young is pleased to submit its comments on the above issue with a recommendation not to be added to Annual Improvements, as published in the September 2011 IFRIC Update.

The IFRS Interpretations Committee ('the Committee') was asked to clarify the meaning of 'the date of initial application' in the transitional requirements of IFRS 10 Consolidated Financial Statements.

"The Committee noted that the general transition requirements in IFRS 10 are for retrospective application, and in the absence of any exceptions, the Committee would expect this to result in application of all the requirements of IFRS 10 from the beginning of the earliest period presented, ie that the date of initial application should be the beginning of the earliest period presented in the financial statement in which the entity adopts IFRS 10.

The Committee noted the lack of definition of 'the date of application' of IFRS 10 and suggested that if the intention of the staff when drafting IFRS 10, and the intention of the Board when finalising the standard, was to provide an exception to the retrospective application for the involvement in entities that are disposed of or whose control is lost in the comparative period(s), then an exception should be added to the transitional requirements in IFRS 10 to make this clear.

The Committee decided that rather than attempting to address this issue through an annual improvement, it would be best to recommend that the Board should consider this issue for separate amendment.

The Committee also suggested to the Board that it should add a definition for ‘the date of initial application’ to the Glossary of Terms.“

We agree with the Committee’s assessment that the transition requirements in IFRS 10 are for retrospective application of the principles of that standard. We also agree with the Committee’s decision that the Board should consider clarifying the meaning of ‘the date of initial application’ through a separate amendment, rather than through an annual improvement. Finally, we agree with the Committee that the Board should consider adding a definition of this phrase to the Glossary of Terms.