STAFF PAPER

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IASB Meeting

Project	Transition guidance (Proposed amendments to IFRS 10)		
Paper topic	Comment letter analysis		
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Introduction

1. In December 2011, the Board published the exposure draft *Transition Guidance (Proposed amendments to IFRS 10)*. The objective of the proposed amendments is to clarify the transition guidance in IFRS 10 *Consolidated Financial Statements*. According to the transition guidance, an entity shall apply IFRS 10 retrospectively, except when the consolidation conclusion is the same when applying IAS 27 *Consolidated and Separate Financial Statements*/SIC-12 *Consolidation-Special Purpose Entities* and when applying IFRS 10 at the date of initial application of IFRS 10. The IFRS Interpretations Committee received requests to clarify the meaning of the date of initial application and the transition relief from retrospective application that was provided in the transition guidance of IFRS 10.

2. The proposed amendments were intended to confirm that:

   (a) the date of initial application is "the beginning of the annual reporting period in which IFRS 10 is applied for the first time", ie 1 January 2013 for a calendar year-end entity that does not early apply IFRS 10;

   (b) an entity should assess whether the consolidation conclusion is different when applying IAS 27/SIC-12 from applying IFRS 10 on the date of initial application of IFRS 10;

(c) an entity is not required to make adjustments to the previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application is the same when applying IAS 27/SIC-12 when compared with applying IFRS 10;

(d) transition relief from retrospective application of IFRS 10 would also apply to an investor's interests in investees that were not previously consolidated in accordance with IAS 27/SIC-12 and that were disposed of during a comparative period in such a way that consolidation would not occur in accordance with either IAS 27/SIC-12 or IFRS 10 at the date of initial application;

(e) if the consolidation conclusion reached at the date of initial application is different when applying IAS 27/SIC-12 when compared with applying IFRS 10, an investor is required to adjust retrospectively its comparative period(s) as if the requirements of IFRS 10 had always been applied, with any adjustments being recognised in opening retained earnings (if practicable).

3. The Board noted that, in situations in which the investee was not consolidated in accordance with IAS 27/SIC-12 but would have been consolidated in accordance with IFRS 10 until the date of disposal, adjusting the comparative period(s) retrospectively for temporary consolidation until disposal would be of little relevance to users and would be burdensome for preparers, particularly in jurisdictions for which several years of comparatives are required.

4. The proposed amendments also clarify how an investor shall adjust comparative period(s) retrospectively if the consolidation conclusion reached at the date of initial application is different when applying IAS 27/SIC-12 when compared with applying IFRS 10.

5. The effective date of the proposed amendments would be aligned with the effective date of IFRS 10, ie an entity would also apply the proposed amendments for annual periods beginning on or after 1 January 2013. Comments on the exposure draft were to be received by 21 March 2012.

Objective of the paper

6. The objective of this paper is to provide an analysis of the comment letters received and to make recommendations on whether the Board should:

   (a) proceed with the amendments to the transition guidance of IFRS 10 proposed in the exposure draft;

   (b) consider additional amendments to further clarify the transition guidance of IFRS 10;

   (c) consider additional amendments to provide further transition relief in related standards; and

   (d) consider providing a similar transition relief to first time adopters of IFRSs in IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Structure of the paper

7. The structure of the paper is as follows:

   (a) background information on the issue (see Introduction above);

   (b) feedback summary of the comment letters received;

   (c) comments received with regard to the amendments proposed in the exposure draft;

   (d) comments received requesting additional clarifications on the transition guidance in IFRS 10;

   (e) comments received requesting the Board to reconsider the transition provisions in IFRS 10;

   (f) comments received on other topics not directly related to the transition guidance in IFRS 10;

   (g) Appendix A: copy of the proposed amendments in the exposure draft showing differences from the current version of IFRS 10;

(h) Appendix B: extract from IFRS 12 *Disclosure of Interests in Other Entities* showing disclosure requirements for unconsolidated structured entities (paragraphs 24-31); and

(i) Appendix C: summary of characteristics of respondents.

Feedback summary

8. 64 comment letters were received from 6 continents. A summary of the respondents is provided in Appendix C. The vast majority of respondents agree with:

(a) the definition of the "date of initial application" provided in new paragraph C2A of the exposure draft;

(b) the amendments proposed in paragraph C3 to clarify that relief from retrospective application would apply to an investor's interests in investees that were disposed of during a comparative period in such a way that consolidation would not occur under either IAS 27/SIC-12 before disposal or IFRS 10 at the date of initial application; and

(c) the amendments provided in paragraphs C4 and C5 to clarify how an investor shall adjust comparative period(s) retrospectively if the consolidation conclusion reached at the date of initial application is different when applying IAS 27/SIC-12 when compared with applying IFRS 10.

However, some respondents made editorial comments that were related to the amendments proposed in the exposure draft.

9. Some respondents also requested additional clarification on how to apply the transition guidance in IFRS 10. These issues were not addressed in the exposure draft. The main issue is about specifying which version of IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* should be used in situations in which:

(a) an investor concludes that it shall consolidate an investee that was not previously consolidated; and

(b) control was obtained before the effective date of IFRS 3 (2008) and IAS 27 (2008).

10. Some respondents asked the Board to reconsider the transition provisions in IFRS 10 more generally. Those respondents believe that:

(a) IFRS 10 should be applied prospectively; or

(b) the requirements to restate comparative periods should be completely removed (by adjusting the opening balance sheet only at the date of initial application).

They note that the transition guidance in IFRS 10 is not consistent with the transition guidance in the exposure draft on Investment Entities, which proposes prospective application.

11. Finally, some respondents asked the Board to consider other topics that are not directly related to the transition guidance in IFRS 10. Specifically, they asked the Board:

(a) to reconsider the mandatory effective date for IFRS 10, IFRS 11 *Joint Arrangements* and IFRS 12;

(b) to consider limiting the requirement to present adjusted comparatives to the preceding period only;

(c) to consider providing some relief from certain disclosures in IFRS 12 and in IAS 8; and

(d) to consider providing similar transition relief to first-time adopters of IFRSs.

Analysis of the comments received with regard to the amendments proposed in the exposure draft

12. The wording of the proposed amendments in the exposure draft showing differences from the current version of IFRS 10 is presented in Appendix A for reference.

Definition of the date of initial application provided in new paragraph C2A

13. The vast majority of respondents agree with the definition of the “date of initial application” provided in new paragraph C2A of the exposure draft. Some respondents recommend:

    (a) adding additional clarifications by making further editorial changes to the definition of the date of initial application to re-emphasise that the “date of initial application” is not the beginning of the earliest comparative period in which IFRS 10 is first applied;

    (b) adding the date of initial application to the IASB *Glossary of Terms* and using the definition consistently across IFRSs. These respondents note that the definition of the date of initial application across IFRSs (eg in IAS 19 *Employee Benefits*) is not consistent with the definition in IFRS 10; and

    (c) re-wording the “date of initial application” as the ‘date at which IFRS 10 is first applied’.

14. The staff recommend proceeding with the definition proposed in the exposure draft for the following reasons:

    (a) The definition currently provided is understood by all of the respondents. Only two respondents, while understanding the proposals, suggested that additional clarification would be helpful.

    (b) We do not think that the phrase “date of initial application” should be changed in IFRS 10. Nor do we think that it is appropriate to change it elsewhere in IFRSs. However, we should be careful in using this phrase in future pronouncements, to improve the consistency of its use and understanding across IFRSs.

Question
Does the Board agree to proceed with the definition of the “date of initial application” as proposed in the exposure draft (shown in new paragraph C2A in Appendix A)?

Transition relief from retrospective application

15. The vast majority of respondents agree with the amendments proposed in paragraph C3 to clarify that the transition relief from retrospective application would apply to an investor's interests in investees that were disposed of during a comparative period in such a way that consolidation would not occur in accordance with IAS 27/SIC-12 at any time during the comparative period or with IFRS 10 at the date of initial application because of the disposal before the effective date of IFRS 10.

16. A few respondents believe that the wording of paragraph C3 should be clarified by clearly stating that when applying IFRS 10 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).

17. The staff recommend proceeding with the proposed amendments as worded in paragraph C3 of the exposure draft, because the amendments are understood by the vast majority of respondents. If an entity that was not consolidated in accordance with IAS 27/SIC-12 has been disposed of (or has been partially disposed of retaining a non-controlling interest), in the comparative period, it would not be consolidated in accordance with IFRS 10 as at the date of initial application of IFRS 10. Consequently, the wording in the exposure draft clearly addresses this fact pattern. In addition, to avoid doubt, the Basis for Conclusions (BC6) clearly states that the transition relief applies to interests in investees that were disposed of before the date of initial application of IFRS 10.

Question
Does the Board agree to proceed with the amendments proposed in the exposure draft (as shown in paragraph C3 in Appendix A)?

Proposed amendments to clarify paragraphs C4 and C5

18. The vast majority of respondents agree with the amendments to paragraphs C4 and C5 to clarify how an investor shall adjust comparative period(s) retrospectively if the consolidation conclusion reached at the date of initial application is different when applying IAS 27/SIC-12 when compared with applying IFRS 10.

19. However, in addition to some minor editorial comments, some respondents noted that the proposed amendment to require that any difference between previously recognised amounts and the revised amounts recognised on initial application of IFRS 10 must be recorded as an adjustment only to retained earnings is too restrictive and may conflict with other standards.

20. The original wording of IFRS 10 required that any cumulative adjustment arising on initial application of IFRS 10 had to be recorded in equity. IAS 8 paragraph 26 recognises that although the adjustment is usually to retained earnings, it may be made to another component of equity (for example, to comply with another IFRS). Some of these other components may be appropriations of retained earnings, or capital maintenance adjustments, that are required by national law in some jurisdictions. When the consolidation conclusion is changed on initial application of IFRS 10, an allocation to non-controlling interest may be needed.

21. The staff recommend that the specific reference to retained earnings in paragraphs C4 to C5A should be deleted and the original reference to equity that was used in IFRS 10 should be retained. Use of the term ‘equity’ is well understood and provides suitable flexibility to adjust components other than retained earnings, particularly non-controlling interest, if appropriate.

Question
Does the Board agree that the wording proposed in paragraphs C4 to C5A of the exposure draft should be modified to refer to equity rather than to retained earnings?

Analysis of the comments received requesting additional clarification on the transition guidance in IFRS 10

22. These are new issues that were not addressed in the exposure draft.

Version of IFRS 3 to be used

23. Many respondents pointed out that IFRS 10 (paragraphs C4 and C4A) does not specify which version of IFRS 3 should be used when:

    (a) an investor concludes that it shall consolidate an investee that was not previously consolidated; and

    (b) control was obtained before the effective date of IFRS 3 (revised in 2008).

24. Some respondents said that their assumption or preference would be to apply the current version of IFRS 3 that was revised in 2008 (IFRS 3 (2008)) in all cases, ie whether control is obtained before or after the effective date of IFRS 3 (2008).

25. An argument for applying IFRS 3 (2004) is that, according to paragraph C4 of IFRS 10, the investor should measure the assets, liabilities and non-controlling interests as if that investee had been consolidated from the date when the investor obtained control of that investee on the basis of the requirements of IFRS 10. Arguably, that would require an investor to apply the version of IFRS 3 that would have been applied when taking control of the investee (on the basis of the requirements of IFRS 10).

26. On the other hand, the argument for applying IFRS 3 (2008) is that it would improve comparability if the same business combinations accounting was applied in all cases in which the investor concludes that it should consolidate an investee that was not consolidated in accordance with IAS 27/SIC-12. It is also consistent with IFRS 1 *First-time Adoption of IFRSs*, which requires that the current version of IFRSs should be used in the first IFRS financial statements.

27. When an investor is required to change its consolidation conclusion at the date of initial application of IFRS 10 in such a way that it now has to consolidate its investment in another entity, it is likely that the investor previously accounted for the investment using the equity method in accordance with IAS 28 *Investments in*

Associates. The concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an associate. Indeed, IAS 28 previously cross-referred to IFRS 3 (2004). Consequently, investors that acquired investees prior to the adoption of IFRS 3 (2008) and equity accounted such investees using IAS 28, will already have identified fair values, goodwill and other amounts required by IFRS 3 (2004).

28. Although applying the current version of IFRS 3 retrospectively to all previous investees that have to be consolidated for the first time in accordance with IFRS 10 is more consistent with the approach taken in IFRS 1, and may result in more comparable information, this may not be feasible, which the Board had previously envisaged. As noted above, in cases in which the investee was previously equity accounted, the investor will often have the information needed to retrospectively apply IFRS 3 (2004) as if the investee had always been consolidated since the date control was obtained on the basis of IFRS 10. This information may provide a more reliable basis for consolidation, because it uses information that had already been obtained and so reduces the risk that hindsight will be used in trying to apply the current version of IFRS 3.

29. The staff note the respective benefits of applying the different versions of IFRS 3, including the practical considerations about the use of information already obtained versus the risk of using of hindsight. We think that no change should be made to IFRS 10, thus allowing entities to apply either version of IFRS 3 depending on their circumstances. We think this decision not to amend IFRS 10 in this regard should be explained in the Basis for Conclusions for IFRS 10.

Question
Does the Board agree that the transition guidance should not be amended to specify which version of IFRS 3 should be used?

Version of IAS 27 to be used

30. In 2008, IAS 27 was amended to change the accounting requirements for three types of transactions: profit or loss attributions; changes in non-controlling interest that do not result in loss of control; and loss of control of a subsidiary. These requirements, when introduced, had to be applied prospectively.

31. IFRS 10 (paragraph C6) also prohibits retrospective application for these requirements. As a result, transactions that were accounted for in accordance with IAS 27 (2003) and that were not restated upon adoption of IAS 27 (2008), are not restated upon adoption of IFRS 10.

32. The retrospective application of IFRS 10 may cause some previously unconsolidated entities to be consolidated. This may in turn result in accounting for changes in non-controlling interests that were not previously required. Some respondents suggest that in these cases, if the changes in non-controlling interests occurred before the effective date of IAS 27 (2008), it is not clear which version of IAS 27 should be used to account for those transactions. In particular, some suggested that paragraph C6 seems to require IAS 27 (2003) to be used if these transactions occurred before IAS 27 (2008) was applied for the first time. This is because paragraph C6 states that the entity shall apply the requirements introduced in the 2008 version of IAS 27 prospectively, except when paragraph C3 is applied. This could be understood as *requiring* prospective application of IAS 27 (2008) upon adoption of IFRS 10 when there is a change in the consolidation conclusion between IFRS 10 and IAS 27/SIC-12.

33. However, the staff view is that paragraphs C4 to C5A of IFRS 10 deal with situations in which the consolidation conclusion changes when IFRS 10 is first applied. These paragraphs state that, eg where an entity is newly consolidated because of IFRS 10, it is accounted for on the basis of IFRS 10 as if it had been consolidated from the date when control was obtained. Similar arguments to those considered in relation to which version of IFRS 3 to apply are also valid arguments to use when considering whether to use IAS 27 (2004) or IAS 27 (2008). If an investor has previously applied the IAS 28 equity method to an

investee that now needs to be consolidated retrospectively in accordance with IFRS 10, it may already have the information needed to apply IAS 27 (2004) to any periods prior to the effective date of IAS 27 (2008). However, in other cases, the information may not be available and so applying the requirements of IAS 27 (2008) that are now incorporated into IFRS 10 may be more appropriate.

34. With regard to the scope of paragraph C6: paragraphs C6a and C6c refer to the "restatement" of transactions and this clearly means, in our view, that the intention was that paragraphs C6a, C6c, and by extension C6b, should only apply to provide relief from restatement for transactions previously accounted for in accordance with IAS 27 (2003). We think that paragraph C6 should be amended to clarify that this paragraph only applies to transactions that were previously accounted for in accordance with IAS 27 (2003).

35. The staff recommend that no other changes be made to IFRS 10 in connection with which version of IAS 27 should be applied, thus allowing entities to apply either version of IAS 27 (for transactions prior to the effective date of IAS 27 (2008)), depending on their circumstances. Consequently, any transaction that was not previously accounted for in accordance with IAS 27 (2003) will be accounted for using whichever version of IAS 27 is considered appropriate, in accordance with IFRS 10 paragraphs C4 to C5A.

Question
Does the Board agree to amend paragraph C6 to clarify that paragraph C6 only applies to transactions that were previously accounted for in accordance with IAS 27 (2003)?

Analysis of the comments received requesting reconsideration of the transition provisions in IFRS 10

36. A few respondents asked the Board to reconsider more broadly the transition provisions in IFRS 10. They believe that:

(a) IFRS 10 should be applied prospectively; or

(b) the requirements to restate comparative periods should be completely removed (and the necessary adjustment be made to the opening statement of financial position at the date of initial application).

37. A few respondents suggest that instead of restating comparatives in accordance with IFRS 10, disclosures should be provided on the impact of applying IFRS 10 at the date of initial application (similar to the recent amendments on initial application of IFRS 9 *Financial Instruments*). They believe that the removal of the requirement to restate comparative information:

(a) would allay concerns that there will be insufficient time to apply IFRS 10 before the effective date; and

(b) would reduce the burden for preparers.

38. Others note that the transition guidance in IFRS 10 is not consistent with the transition guidance in the exposure draft on Investment Entities, which proposes prospective application.

39. IFRS 10 was already clear that when the consolidation conclusion changed on the date of initial application of IFRS 10, retrospective application of the requirements of IFRS 10 (and IFRS 3) is required. In the redeliberations preceding the issue of IFRS 10 (in May 2010), the Board did not support the staff's proposal to provide relief from adjusting comparatives retrospectively. The majority of the respondents to the Request for Views *Effective Date and Transition Methods* that was published in October 2010 agreed with limited retrospective application as reflected in IFRS 10.

40. The staff do not recommend that the Board should reconsider the general transition requirement for retrospective application of IFRS 10. As noted in the Basis for Conclusions for IFRS 10, an investor would often have the information available to consolidate the investee retrospectively (BC196). The objective of the exposure draft was to clarify the Board's intention when issuing IFRS 10, which was to use the date of initial application as the point at which it was determined what interests should be consolidated in accordance with IFRS 10.

41. However, in paragraphs 49 to 56 below, we consider requests for limited relief from providing some comparative information.

Consistency with transition provisions in the Investment Entities exposure draft

42. With regard to the transition provisions of the exposure draft on Investment Entities and the requests for consistency with the transition guidance of IFRS 10, we think that the situations and considerations are different and do not necessarily need the same transition provisions. The appropriate transition requirements for Investment Entities will be considered during the redeliberations of that project.

43. The Board previously noted, in the Basis for Conclusions of IFRS 10 (BC196), that an investor would often have the information needed to consolidate an investee retrospectively if it had previously accounted for its investment in that investee using proportionate consolidation or the equity method. This would also be the case if an investor no longer consolidates an investee that it previously consolidated, but would now have to account for it using the equity method.

44. This contrasts with the Board's decision, expressed in the Basis for Conclusions of the exposure draft on Investment Entities (BC26) that, given the nature of an investment entity, retrospective application could be impracticable. This is because it could involve hindsight over several years in order to determine what was the fair value for multiple assets, particularly because, in accordance with IFRS, there was no previous requirement to disclose the fair values of such controlled investments.

Question
Does the Board agree that the current transition provisions in IFRS 10 should not be reconsidered more broadly?

Analysis of the comments received on other topics not directly related to the transition provisions in IFRS 10

Deferral of the mandatory effective date of IFRS 10, IFRS 11 and IFRS 12

45. A few respondents recommend that the mandatory effective date of IFRS 10, IFRS 11 and IFRS 12 should be deferred, because:

    (a) the transition provisions of IFRS 10 will be clarified only a few months before the date of initial application of these standards;

    (b) the Board is still working on the Investment Entities project; and

    (c) this would provide adopters with additional time for implementation and for gathering the information required to restate comparatives.

46. We note that at the January 2012 meeting the Board considered whether to defer the 1 January 2013 mandatory effective date of IFRS 10, IFRS 11, and IFRS 12 (the new standards) in response to a request by the European Financial Reporting Advisory Group (EFRAG). The Board considered EFRAG's arguments for deferring the effective date and acknowledged the concerns raised by some European constituents. However, the Board also noted that some entities, including European entities, have already committed resources to implementing the new standards and had requested that the original effective date should be retained. The Board gave particular weight to the fact that the new standards, particularly IFRS 10 and IFRS 12, are part of the response to the financial crisis and address matters raised by the G20 and Financial Stability Board. After considering these arguments, the Board voted to retain the mandatory 1 January 2013 effective date of the new standards. We note that no new arguments for deferral of IFRS 10 have been raised in the comment letters.

Interaction of IFRS 10 and the disclosure requirements in IAS 8

47. Some respondents asked the Board to consider the interaction between the transition provisions in IFRS 10 and the disclosure requirements in paragraph 28 (particularly subparagraph 28(f)) of IAS 8 *Accounting Policies, Changes in*

Accounting Estimates and Errors. That subparagraph requires an entity to disclose, for the current and each prior period presented, the amount of any adjustment on the initial application of an IFRS for each financial statement line item. In order to achieve this, entities have said that they will have to 'parallel run' their consolidation procedures in order to quantify the effects on the current period.

48. This issue is not limited to the initial application of IFRS 10 but relates to the initial application of all new standards. This issue is being investigated by the staff and will be discussed by the Board at the May meeting (Agenda paper AP10). As a result, we do not think that the Board should discuss this issue as part of this project.

Requests to provide limited relief from the requirement to disclose some comparative information

49. Some preparers asked the Board to consider providing limited relief to the requirements in IFRS 10, IFRS 11 and IFRS 12 for presenting comparative information. As noted earlier (paragraphs 39-40), the Board have previously rejected a request for complete relief from restating all comparatives and we do not intend to reopen that debate here. However, the staff propose limited additional transition relief in two areas:

(a) limiting the need to present adjusted comparatives to the preceding period only; and

(b) for the first year in which IFRS 12 is applied, eliminating the requirement to provide comparative information for the disclosures relating to unconsolidated structured entities in paragraphs 24 to 31 of IFRS 12 (reproduced in Appendix B for reference).

Limiting the need to present adjusted comparative information

50. Some respondents noted that the presentation of comparative information required is a particular challenge and imposes an operational burden on preparers that is significant within the context and timeliness of an already challenging implementation project for IFRS 10, IFRS 11 and IFRS 12. This is especially true with regard to the ability to obtain, analyse and verify detailed information that

was not previously needed, particularly in cases where multiple prior period comparisons may be required by local legislative or regulatory requirements. An example that is commonly cited in discussions with constituents is the disclosures about income from, and assets transferred to, unconsolidated structured entities that an investor has sponsored but in which it does not have a direct interest.

51. Although investors may have access to information needed to present adjusted comparatives for earlier comparative periods, their accounting systems may not have captured it. This is particularly likely when the consolidation conclusion changes in such a way that an investee has to be consolidated retrospectively.

52. When considering the restatement of comparatives, the Board considers the requirements of IFRS, which generally only mandate disclosure of the preceding period, ie one comparative period. It is not reasonable for the Board to be aware of the requirements of regulators or individual jurisdictions for multiple comparative periods.

53. The staff agree with the respondents' concerns and recommend that the presentation of adjusted comparative information on the retrospective application of IFRS 10 should be required for the preceding period only. We believe this will not only reduce the operational risks and burden, costs and effort required for preparers but will help focus that effort on improving the quality and consistency of the information presented for the current and preceding periods. This change would not prohibit adjusting comparatives for earlier periods.

54. Similar concerns to those expressed relating to the difficulty of gathering information that would be needed to consolidate an investee retrospectively apply equally to when the classification of a joint arrangement changes from a joint venture (previously equity accounted) to a joint operation (for which the investor's share of the assets and liabilities, income and expenditure, needs to be reflected on a line-by-line basis). Consequently, the staff also recommend a similar consequential amendment to IFRS 12 in order to apply the same limited relief to joint arrangements by requiring the presentation of adjusted comparative information for the preceding period only.

Question
Does the Board agree to restrict the requirement to restate comparative information to only the preceding year when IFRS 10, IFRS 11 and IFRS 12 are applied for the first time?

Additional relief relating to unconsolidated structured entities

55. In the exposure draft (ED 10) that preceded IFRS 10, it was proposed that three years of information should be required about income from, and assets transferred to, sponsored unconsolidated structured entities. This was not supported by respondents and was consequently rejected by the Board, who noted that current information is very important but that arguably, the trend information is less relevant. Information about unconsolidated structured entities is now required for the current period in IFRS 12 paragraph 27. Comparative information is required by the general requirements of IAS 1 *Presentation of Financial Statements*.

56. Some constituents have highlighted the difficulty of obtaining the information required for this disclosure. The information required for unconsolidated structured entities was not previously required by IAS 27 and so sponsoring entities' accounting systems have not been designed to capture this information. The investors do not have control or joint control of these entities and respondents to the exposure draft suggest that the preparatory work being undertaken by preparers has highlighted that complying with the comparative requirement is proving to be more onerous than some of those entities originally thought. It is considered that their resources would be more effectively directed at gathering better quality information relating to the current position and risk exposure. The staff therefore recommend that, for the first year in which IFRS 12 is applied, relief is given from presenting comparatives for the information required by paragraphs 24 to 31 relating to unconsolidated structured entities (reproduced in Appendix B for reference).

Question
Does the Board agree to provide additional limited relief to eliminate the requirement to provide comparative information with regard to unconsolidated structured entities in the first year in which IFRS 12 is applied?

Providing a transition relief to first time adopters of IFRS 10 in IFRS 1

57. The staff consider the need for an exemption for first-time adopters in two parts, (a) a general exemption from restating comparatives when a consolidation conclusion changes when applying IFRS 10 for the first time; and (b) a specific exemption from restating comparatives when a subsidiary is disposed of in the comparative period.

58. Some respondents think that transition relief should also be provided to first-time adopters of IFRS when they first apply IFRS 10. In particular, some are of the view that a first-time adopter should not be required to make adjustments to its previous accounting for investees that were disposed of during a comparative period (in such a way that consolidation would not occur in accordance with either IFRS 10 or the previous GAAP at the beginning of the first IFRS reporting period). They note that the transition relief from retrospective application in IFRS 10 is provided in such fact patterns for existing IFRS preparers because temporary consolidation until disposal would be of little relevance to users and would be burdensome for preparers, particularly in jurisdictions for which several years of comparatives are required. They believe that these concerns are also applicable to first-time adopters.

59. According to IFRS 1, a first-time adopter shall prepare and present an opening IFRS statement of financial position at the date of transition to IFRSs (ie at the beginning of the *earliest comparative period* for which an entity presents full comparative information under IFRS in its first IFRS financial statements). This is the starting point for its accounting in accordance with IFRSs. The general principle in IFRS 1 is that an entity shall apply the current version of IFRSs

retrospectively with limited mandatory exceptions and limited optional exemptions.

60. Looking first at the request for a general exemption from restating comparatives for first-time adopters changing their consolidation conclusion when first applying IFRS 10; such first-time adopters may already elect not to apply IFRS 3 retrospectively to past business combinations that occurred before the date of transition to IFRSs (IFRS 1 Appendix C). However, if a first-time adopter restates any business combination to comply with IFRS 3, it shall restate all later business combinations and shall also apply IFRS 10 from that same date.

61. In the case in which a first-time adopter has to consolidate an entity in accordance with IFRS 10 that was not consolidated in accordance with its previous GAAP, IFRS 1 provides specific guidance in paragraph C4(j) (if the first-time adopter chooses not to apply IFRS 3 retrospectively):

> C4(j) In accordance with its previous GAAP, the first-time adopter may not have consolidated a subsidiary acquired in a past business combination (for example, because the parent did not regard it as a subsidiary in accordance with previous GAAP or did not prepare consolidated financial statements). The first-time adopter shall adjust the carrying amounts of the subsidiary's assets and liabilities to the amounts that IFRSs would require in the subsidiary's statement of financial position. The deemed cost of goodwill equals the difference at the date of transition to IFRSs between:
>
> (i) the parent's interest in those adjusted carrying amounts; and
>
> (ii) the cost in the parent's separate financial statements of its investment in the subsidiary.

62. This exemption provides the same relief to first-time adopters using IFRS 10 as it did for those who previously made the transition to IAS 27 and so no change is required to reflect IFRS 10.

63. It should be noted that according to paragraphs C4(b) and C4(c) of IFRS 1, in the case in which a first-time adopter consolidates an entity both in accordance with IFRS 10 and with its previous GAAP, the first-time adopter would still need:

    (a) to recognise all assets and liabilities at the date of transition in accordance with IFRSs (with limited exceptions); and

    (b) to exclude any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability in accordance with IFRSs at the date of transition.

64. In other words, even if the consolidation conclusion does not change at the date of transition to IFRSs, a first-time adopter might still need to make adjustments to its opening IFRS statement of financial position (at the date of transition to IFRSs) and to its comparative(s) to comply with all IFRSs (in accordance with paragraph 10 of IFRS 1).

65. We do not think that the transition from IAS 27 to IFRS 10 is similar to the transition from local GAAP to IFRS 10. When providing transition relief in a new standard, the Board takes into account the starting point, ie the existing provisions in the IFRS standard to be replaced. We are aware of the probable accounting that would apply to an IFRS preparer if it did not previously consolidate (- it is likely to have equity accounted). For first-time adopters, there could be a range of possible accounting under previous GAAP and the Board is not aware of all the details of the different starting points from which a first-time adopter might be making the transition. Consequently, providing the same relief as for existing IFRS preparers is not always appropriate or feasible.

66. The staff therefore do not recommend that relief should be provided to first-time adopters, even if the consolidation conclusion in accordance with IFRS 10 is changed from local GAAP. IFRS 10 should be applied retrospectively by first-time adopters, subject to the existing relief provided in IFRS 1 Appendix C.

Question
Does the Board agree that IFRS 1 does not need to be amended to provide general relief for first-time adopters applying IFRS 10?

67. According to paragraph C4(j) of IFRS 1, in the case in which a first-time adopter disposed of a subsidiary during a comparative period that was not previously consolidated in accordance with its previous GAAP, the first-time adopter would still need to consolidate the subsequently disposed subsidiary until the date of disposal (and adjust the carrying amounts of the assets and liabilities).

68. It can be argued that adjusting the comparative period(s) retrospectively for temporary consolidation until disposal would be of little relevance to users and would be burdensome for preparers (which is the reason why the transition relief for such a fact pattern is given to existing IFRS preparers in IFRS 10).

69. However, whereas we are aware of the probable accounting that would apply to an IFRS preparer if it did not previously consolidate (and is likely to have equity accounted), there could be a range of possible accounting under previous GAAP for first-time adopters. Not restating the investment in this subsequently disposed-of subsidiary would also be inconsistent with the general IFRS 1 concept of an opening IFRS statement of financial position at the date of transition to IFRS.

70. If a similar relief as provided in IFRS 10 were to be provided in IFRS 1, specific guidance would need to be added to IFRS 1 to specify how investments in subsidiaries disposed of during the comparative period should be measured at the date of transition, and subsequently, to avoid recognising assets and liabilities that are not compliant with IFRSs in the opening IFRS statement of financial position and in the comparatives. It should also be noted that this issue is not specific to IAS 27 or IFRS 10 and relief was not granted to previous first-time adopters.

71. Consequently, the staff also do not recommend providing a transition relief in IFRS 1 for circumstances in which a controlling interest in an investee is disposed of during the comparative period, as is provided in IFRS 10.

Question
Does the Board agree that IFRS 1 should not include a transition relief similar to the relief provided in IFRS 10 for subsidiaries disposed of in the comparative period?

Appendix A—Draft wording of the proposed final amendments showing differences from the current version of IFRS 10

[Draft] Transition Guidance (Amendments to IFRS 10 *Consolidated Financial Statements*)

In Appendix C, paragraph C2A is added and paragraphs C3, C4 and C5 are amended. Paragraph C4 has been divided into paragraphs C4 and C4A. Paragraph C5 has been divided into paragraphs C5 and C5A. New text is underlined and amended text is struck through.

C2A For the purposes of this IFRS, the date of initial application is the beginning of the annual reporting period in which this IFRS is applied for the first time.

C3 ~~When applying this IFRS for the first time~~ At the date of initial application, an entity is not required to make adjustments to the previous accounting for its involvement with either:

(a) entities that ~~were previously~~ would be consolidated at that date in accordance with IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation-Special Purpose Entities*, and~~,~~ remain consolidated in accordance with this IFRS~~, continue to be consolidated~~; or

(b) entities that ~~were previously unconsolidated~~ would not be consolidated at that date in accordance with IAS 27 and SIC-12, and~~,~~ remain unconsolidated in accordance with this IFRS ~~continue not to be consolidated~~.

C4 ~~When application of this IFRS for the first time results in~~ If, at the date of initial application, an investor concludes that it shall consolidate ~~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 that ~~the~~ date ~~of initial application~~ as if that investee had been consolidated (and thus had 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. The investor shall adjust comparative periods retrospectively. Any difference between:

(i) the amount of assets, liabilities and non-controlling interests recognised; and

(ii) the previous carrying amount of the investor's involvement with the investee

shall be recognised as an adjustment to retained earnings at the beginning of the earliest comparative period presented or, if later, on the date when control was obtained in accordance with 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 that ~~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. The investor shall adjust comparative periods retrospectively. Any difference between:

(i) the amount of assets, liabilities and non-controlling interests recognised; and

(ii) the previous carrying amount of the investor's involvement with the investee

shall be recognised as ~~a corresponding~~ an adjustment to retained earnings ~~the opening balance of~~ equity at the beginning of the earliest comparative period presented or, if later, on the date when control was obtained.

~~(c)~~

C4A ~~i~~If measuring an investee's assets, liabilities and non-controlling interest in accordance with paragraph C4(a) or (b) is impracticable (as defined in IAS 8), ~~the~~ an investor shall:

~~(i)~~(a) 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)~~(b) if the investee is not a business, apply the acquisition method as described in IFRS 3 but 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 adjust comparative periods retrospectively unless the earliest period for which application of this paragraph is practicable is the current period. ~~The investor shall recognise~~ ~~a~~Any difference between:

(a) the amount of assets, liabilities and non-controlling interests recognised at the deemed acquisition date; and

(b) any previously recognised amounts from its involvement

shall be recognised as an adjustment to retained earnings ~~equity for that period~~ at the deemed acquisition date. ~~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~~ If, at the date of initial application, an investor concludes that it shall no longer ~~consolidating~~ consolidate 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~~ at that 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. The investor shall adjust comparative periods retrospectively. Any difference between:

(a) the previous amount of assets, liabilities and non-controlling interests recognised; and

(b) the carrying amount of the investor's retained interest in the investee

shall be recognised as an adjustment to retained earnings at the beginning of the earliest comparative period presented or, if later, on the date when the investor became involved with, or in accordance with this IFRS lost control of, the investee.

C5A If measurement of the retained interest is impracticable (as defined in IAS 8), ~~the~~ an 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 adjust comparative periods retrospectively unless the earliest period for which application of this IFRS is practicable is the current period. ~~The investor shall recognise~~ ~~a~~Any difference between:

(a) the previously recognised amount of the assets, liabilities and non-controlling interest; and

(b) the carrying amount of the investor's ~~involvement with~~ retained interest in the investee

shall be recognised as an adjustment to retained earnings equity ~~for that period~~ at the beginning of the period when the loss of control is deemed to have occurred in accordance with this IFRS. ~~In addition, the investor shall provide comparative information and disclosures in accordance with IAS 8.~~

In Appendix C, paragraph C1A is added.

C1A *Transition Guidance (Amendments to IFRS 10)*, issued in [date], amended paragraphs C3, C4, C5 and added paragraphs C2A, C4A and C5A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. If IFRS 10 is applied early those amendments shall also be applied early.

Appendix B—Extract from IFRS 12 showing disclosure requirements for unconsolidated structured entities (paragraphs 24-31);

Interests in unconsolidated structured entities

24 An entity shall disclose information that enables users of its financial statements:

(a) to understand the nature and extent of its interests in unconsolidated structured entities (paragraphs 26–28); and

(b) to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities (paragraphs 29–31).

25 The information required by paragraph 24(b) includes information about an entity's exposure to risk from involvement that it had with unconsolidated structured entities in previous periods (eg sponsoring the structured entity), even if the entity no longer has any contractual involvement with the structured entity at the reporting date.

Nature of interests

26 An entity shall disclose qualitative and quantitative information about its interests in unconsolidated structured entities, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.

27 If an entity has sponsored an unconsolidated structured entity for which it does not provide information required by paragraph 29 (eg because it does not have an interest in the entity at the reporting date), the entity shall disclose:

(a) how it has determined which structured entities it has sponsored;

(b) *income from those structured entities* during the reporting period, including a description of the types of income presented; and

(c) the carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period.

28 An entity shall present the information in paragraph 27(b) and (c) in tabular format, unless another format is more appropriate, and classify its sponsoring activities into relevant categories (see paragraphs B2–B6).

Nature of risks

29 An entity shall disclose in tabular format, unless another format is more appropriate, a summary of:

(a) the carrying amounts of the assets and liabilities recognised in its financial statements relating to its interests in unconsolidated structured entities.

(b) the line items in the statement of financial position in which those assets and liabilities are recognised.

(c) the amount that best represents the entity's maximum exposure to loss from its interests in unconsolidated structured entities,

including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in unconsolidated structured entities it shall disclose that fact and the reasons.

(d) a comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in unconsolidated structured entities and the entity's maximum exposure to loss from those entities.

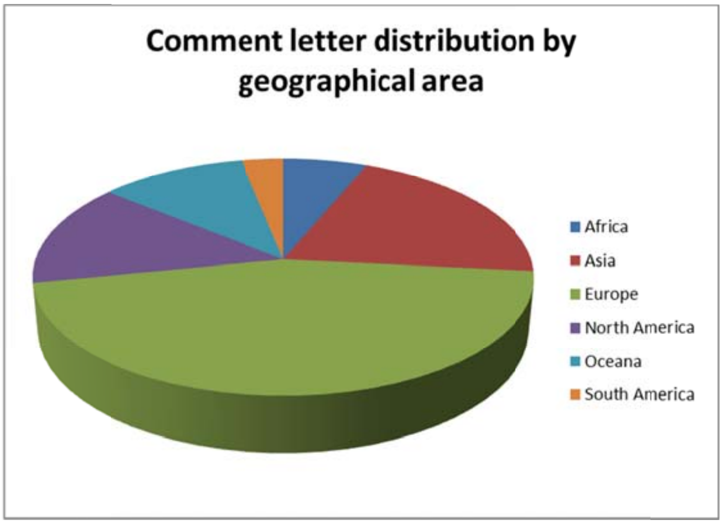
30 If during the reporting period an entity has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated structured entity in which it previously had or currently has an interest (for example, purchasing assets of or instruments issued by the structured entity), the entity shall disclose:

(a) the type and amount of support provided, including situations in which the entity assisted the structured entity in obtaining financial support; and

(b) the reasons for providing the support.

31 An entity shall disclose any current intentions to provide financial or other support to an unconsolidated structured entity, including intentions to assist the structured entity in obtaining financial support.

Appendix C—Summary of characteristics of respondents



Comment letter distribution by geographical area		
Africa	4	6%
Asia	13	20%
Europe	29	46%
North America	9	14%
Oceania	7	11%
South America	2	3%
	64	**100%**

Comment letter distribution by type of respondent		
Accountancy Body	12	19%
Accounting Firm	8	13%
Government/Policymaker	4	6%
Individual	2	3%
Industry Organisation	3	5%
Preparer/Industry	3	5%
Preparer/Industry (Banks)	5	8%
Preparer/Industry (Financials)	1	1%
Preparer/Representative Body	3	5%
Regulator	1	1%
Standard-setter	21	33%
User/Representative Body	1	1%
	64	**100%**