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STAFF PAPER

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Project	**IFRS 1 *First-time Adoption of International Financial Reporting Standards*—Subsidiary as a first-time adopter**
Paper topic	Possible narrow-scope standard-setting

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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about the accounting applied by a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent. The subsidiary has foreign operations, on which it accumulates translation differences in a separate component of equity. The submitter asked whether, applying paragraph D16(a) of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the subsidiary is permitted to recognise cumulative translation differences (CTD) at the amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs.[1]

2. The Committee discussed this matter at its meetings in March and September 2017. Following the discussion in September, the Committee published an agenda decision, in which:

    (a) the Committee explained that the exemption in paragraph D16(a) of IFRS 1 does not apply to CTD. This is because paragraph D16(a) provides a subsidiary that becomes a first-time adopter later than its parent with an

[1] The exemption in paragraph D16(a) of IFRS 1 is also available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it. Accordingly, the discussions and our recommendation in this paper are equally applicable to such an associate and joint venture.

exemption relating only to the measurement of its assets and liabilities. Consequently, such a subsidiary measures its CTD applying paragraphs D12–D13 of IFRS 1 at its date of transition to IFRSs. This requires the subsidiary to recognise CTD either at zero or on a retrospective basis at that date.

(b) The Committee concluded that the requirements in IFRS Standards provide an adequate basis for a first-time adopter to determine how to account for CTD.

3. In addition to publishing the agenda decision and in response to feedback on the tentative agenda decision on this matter, the Committee decided to research possible narrow-scope standard-setting for components of equity when a subsidiary becomes a first-time adopter later than its parent.

4. At its November meeting, the Committee discussed such possible narrow-scope standard-setting. Based on its discussions, the Committee decided to recommend that the International Accounting Standards Board (Board) propose an amendment to IFRS 1 to provide a subsidiary that applies paragraph D16(a) with additional practical relief for CTD.

5. The purpose of this paper is to summarise the Committee's discussions, and ask the Board whether it agrees with the staff recommendation to amend IFRS 1.

Structure of this paper

6. The paper is structured as follows:

   (a) staff recommendation;

   (b) narrow-scope standard-setting; and

   (c) proposed amendment.

7. The paper has two appendices:

   (a) Appendix A—Review of financial statements; and

   (b) Appendix B—Excerpts from IFRS 1, for ease of reference.

Staff recommendation

8. We recommend that the Board:

   (a) propose an amendment to IFRS 1 to require a subsidiary that applies paragraph D16(a) of IFRS 1 to measure CTD using the amounts reported by the parent, based on the parent's date of transition to IFRSs (subject to any adjustments made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary); and

   (b) include this proposed amendment in its next Annual Improvement Cycle.

Narrow-scope standard-setting

Question

9. As confirmed in the Committee's agenda decision, the exemption in paragraph D16(a) of IFRS 1 does not apply to CTD. This means that a subsidiary that becomes a first-time adopter later than its parent cannot measure its CTD at the same amounts that the parent would include in its consolidated financial statements, based on the parent's date of transition to IFRSs. Instead, the subsidiary applies paragraphs D12–D13 of IFRS 1 and measures its CTD either at zero or on a retrospective basis at its date of transition to IFRSs. Either of these options would require the subsidiary to keep two sets of records for CTD—one to prepare its own financial statements and the other for the preparation of its parent's consolidated financial statements.

10. Similar questions could arise if a parent applies other exceptions or exemptions in IFRS 1 that affect the reported amounts of component of equity associated with its subsidiaries. This is because a subsidiary that becomes a first-time adopter later than its parent may not be able to measure components of equity using amounts reported in its parent's consolidated financial statements.

11. The Committee noted the Board's rationale for the exemption in paragraph D16(a)—paragraph BC60 of IFRS 1 explains that the Board provided this exemption so that such a subsidiary would not have to keep two sets of records based on different dates of transition to IFRSs. Accordingly, the Committee decided to research possible

narrow-scope standard-setting for components of equity when a subsidiary becomes a first-time adopter later than its parent. Any possible standard-setting would seek to eliminate the need for such a subsidiary to keep two sets of records for reported amounts of particular components of equity based on different dates of transition to IFRSs.

Requirements in paragraph D16(a) of IFRS 1

12. Paragraph D16(a) of IFRS 1 says:

> D16 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:
>
> (a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary…

13. In our view, this requirement means:

    (a) the subsidiary would not simply take the same amounts of assets and liabilities as reported by its parent at the subsidiary's date of transition to IFRSs; but

    (b) rather, the subsidiary could have the same amounts of assets and liabilities as reported by its parent at its date of transition to IFRSs because the subsidiary could measure those assets and liabilities at that date as if it had accounted for them applying IFRS Standards from the parent's date of transition to IFRSs, taking into account the effects of any exceptions and exemptions in IFRS 1 that the parent had applied at the parent's date of transition to IFRSs[2].

[2] For simplicity, throughout this paper we have not referred to adjustments that affect the carrying amounts of assets and liabilities of the subsidiary for (a) consolidation procedures and (b) the effects of the business combination in which the parent acquired the subsidiary. Nonetheless, such adjustments would create a

14. The subsidiary would not, however, take into account the effects of any exceptions and exemptions in IFRS 1 applied by the parent that affect only components of equity (for example, the exemption relating to CTD in paragraph D13 of IFRS 1). This is because paragraph D16(a) does not apply to measuring components of equity.

15. The following are examples of what this means for a subsidiary that elects to apply the exemption in paragraph D16(a)[3]:

    (a) Applying paragraph D5 of IFRS 1, at its date of transition to IFRSs a parent may elect to measure an item of property, plant and equipment (PPE) at fair value and use that fair value as deemed cost at that date. In such a circumstance, the subsidiary could measure the PPE at its date of transition to IFRSs as if it had applied IAS 16 *Property, Plant and Equipment* from the parent's date of transition to IFRSs, taking into account the effects of the exemption in paragraph D5 that the parent had applied. Accordingly, if the subsidiary uses the revaluation model to measure its PPE for the purpose of its parent's consolidated financial statements as well as its own financial statements, any revaluation surplus at the subsidiary's date of transition to IFRSs could be the same for both purposes.

    (b) If a subsidiary has designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in IFRS 9 *Financial Instruments*, paragraph B6 of IFRS 1 requires its parent to discontinue hedge accounting relating to that transaction at the parent's date of transition to IFRSs. When the subsidiary later becomes a first-time adopter, it could measure assets (or liabilities) relating to the transaction at its date of transition to IFRSs as if it had applied IFRS 9 from the parent's date of transition to IFRSs, taking into account the effects of the exception in paragraph B6 that the parent had applied. Accordingly, the date at which the subsidiary discontinues hedge accounting for the transaction could be the parent's date of transition to IFRSs and not its own date of transition to

difference in the carrying amounts of assets and liabilities of the subsidiary between the subsidiary's financial statements and the parent's consolidated financial statements.

[3] For ease of reference, Appendix B to this paper reproduces the relevant excerpts from IFRS 1 for these exceptions and exemptions.

IFRSs. As a consequence, at the subsidiary's date of transition to IFRSs, there could be no difference in the cash flow hedge reserve relating to the transaction reported by the subsidiary and its parent.

16. As shown in the examples in paragraph 15 of this paper, exceptions and exemptions in IFRS 1 would not create a question or concern similar to CTD if they affect the measurement of assets and liabilities. This is because, in our view, a subsidiary that applies paragraph D16(a), in effect, could measure its assets and liabilities at its date of transition to IFRSs as if it had applied IFRS Standards to those assets and liabilities from the parent's date of transition to IFRSs (taking into account the effects of the exceptions and exemptions in IFRS 1 that the parent had applied). Accordingly, it is those exceptions and exemptions in IFRS 1 that affect only the measurement of components of equity that could potentially create a concern similar to CTD.

Components of equity affected by exceptions and exemptions in IFRS 1

17. The Committee discussed all exceptions and exemptions in IFRS 1 that affect only the measurement of components of equity. For ease of reference, Appendix B to this paper reproduces the relevant excerpts from IFRS 1 for these exceptions and exemptions. The Committee also discussed our findings from a review of publicly available financial statements, summarised in Appendix A to this paper.

Non-controlling interests

18. Paragraph B7 of IFRS 1 requires a first-time adopter to apply some requirements in IFRS 10 *Consolidated Financial Statements* prospectively from its date of transition to IFRSs. An example of such requirements relates to how an entity accounts for changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary. Applying paragraph 23 of IFRS 10, an entity accounts for such changes as equity transactions.

19. If these transactions occur between a parent's date of transition to IFRSs and a subsidiary's date of transition to IFRSs, the parent would account for the transactions as equity transactions in its consolidated financial statements. However, the subsidiary may account for them differently depending on its previous GAAP. Because paragraph B7 requires a first-time adopter to apply IFRS 10 prospectively to

these transactions, this could create a difference in the amounts of components of equity relating to the subsidiary reported by the subsidiary and its parent.

20. This difference, however, would not arise if the subsidiary applies paragraph D16(a) of IFRS 1. This is because of the requirements in paragraph C1 of IFRS 1. Paragraph C1 requires a first-time adopter to apply the requirements of IFRS 10 from the date it applies the requirements of IFRS 3—this could be its date of transition to IFRSs or an earlier date that it chooses. Because a subsidiary that applies paragraph D16(a) measures its assets and liabilities using the amounts reported by the parent, it would also apply IFRS 3 (and IFRS 10) from the date that the parent applies IFRS 3. Accordingly, in this situation there would be no difference in the amounts of components of equity reported by the subsidiary and its parent.

Compound financial instruments

21. Paragraph D18 of IFRS 1 permits a first-time adopter not to split a compound financial instrument into separate liability and equity components if the liability component is no longer outstanding at its date of transition to IFRSs.

22. If the liability component of a compound financial instrument held by a subsidiary were outstanding at the parent's date of transition to IFRSs, the parent would not have been able to use the exemption in paragraph D18. Accordingly, the parent would have applied IAS 32 *Financial Instruments: Presentation* and split the compound financial instrument into separate liability and equity components. However, if this liability component is no longer outstanding at the subsidiary's date of transition to IFRSs, the subsidiary may apply paragraph D18 and not split the instrument into separate liability and equity components. This could create a difference in the amounts of components of equity reported by the subsidiary and its parent.

23. Nonetheless, because the exemption in paragraph D18 is optional, the subsidiary could choose not to apply this exemption and, instead, apply IAS 32 retrospectively to the compound financial instrument. This would avoid creating a difference in the amounts of components of equity reported by the subsidiary and its parent.

24. The Committee agreed with the analysis described above in paragraphs 21–23, but a few members questioned whether a difference could arise in other situations. Although this possibility did not change the view of these Committee members to

recommend an amendment to IFRS 1 only for CTD, we have considered this comment in the following paragraphs, which were not included in the paper discussed by the Committee.

25. A difference could potentially arise with respect to compound financial instruments if:

    (a) paragraph D18 is read as not applying on an instrument-by-instrument basis;

    (b) the subsidiary has multiple compound financial instruments for which the liability component was extinguished on different dates. For example, the subsidiary has:

        (i) compound financial instruments for which the liability component is no longer outstanding at the parent's date of transition to IFRSs (Instrument A); and

        (ii) compound financial instruments for which the liability component is outstanding at that date but becomes extinguished before the subsidiary's date of transition to IFRSs (Instrument B); and

    (c) the parent had applied paragraph D18 to compound financial instruments for which the liability component was extinguished before its date of transition to IFRSs (ie Instrument A).

26. In this situation, if the subsidiary applies the exemption in paragraph D18 at its date of transition to IFRSs, it applies the exemption to both Instrument A and Instrument B. The parent, however, could apply paragraph D18 only to Instrument A because the liability component of Instrument B is still outstanding at its date of transition to IFRSs. This could create a difference in the amounts of components of equity reported by the subsidiary and its parent.

27. Despite this potential difference, we do not see a need to expand the scope of the proposed relief to include compound financial instruments. This is because any difference:

    (a) would affect only components of equity (for example, a reclassification between retained earnings and another component of equity)—there would be no difference in the amount of liabilities recognised because the liability component of Instruments A and B are no longer outstanding at the subsidiary's date of transition to IFRSs;

(b) would arise only in a situation described above in paragraph 25; and

(c) would be static, unlike any difference potentially arising for CTD.

28. Consequently, we recommend that the Board not expand the scope of the proposed relief to include compound financial instruments.

Summary

29. Based on the analysis, a subsidiary that applies the exemption in paragraph D16(a) and its parent could report the following items relating to the subsidiary at different amounts when the subsidiary becomes a first-time adopter later than its parent:

(a) CTD;

(b) non-controlling interests; and

(c) compound financial instruments.

30. There are no exceptions or exemptions in IFRS 1 that would affect components of equity relating to the remeasurement of defined benefit pension plans and unrealised gains or losses on financial instruments. Consequently, a subsidiary that becomes a first-time adopter later than its parent would measure these items using the amounts reported in its parent's consolidated financial statements.

Scope of possible narrow-scope standard-setting

31. For the reasons explained above in paragraph 30, the Committee concluded that standard setting is not needed for components of equity relating to the remeasurement of defined benefit pension plans and unrealised gains or losses on financial instruments.

32. The Committee also concluded that standard-setting is not needed for non-controlling interests and compound financial instruments. This is because, as discussed in paragraphs 18–28 of this paper, either (a) a subsidiary is able to avoid any potential difference in these amounts by applying or not applying some exemptions in IFRS 1,

or (b) there is no need to undertake standard-setting for any potential difference relating to compound financial instruments.

33. Consequently, the Committee concluded that the scope of any possible narrow-scope standard-setting should be limited to CTD. The Committee noted the findings in paragraph A3 of this paper, which shows that more than a half of the companies reviewed report CTD. Additionally, the amount of CTD tends to be significant relative to total AOCI.

Potential benefits and costs of standard-setting

34. The Committee considered the potential benefits and costs of standard-setting. Amending IFRS 1 could potentially reduce costs for some first-time adopters. Providing additional practical relief for CTD would enable a subsidiary that becomes a first-time adopter later than its parent to measure CTD using the amounts reported by the parent. The amendments would also be consistent with the rationale underlying the exemption in paragraph D16 of IFRS 1 as explained in paragraph BC60 of IFRS 1—a subsidiary adopting IFRS Standards later than its parent would not have to keep two sets of records based on different dates of transition to IFRSs.

35. The amendments would be narrow in scope and have the potential to resolve the matter in an efficient manner. This is because the amendments would affect only first-time adopters and are unlikely to have unintended consequences, especially in the context of other IFRS Standards.

36. Nonetheless, in assessing the significance of the potential reduction in costs, the Committee considered the following:

    (a) Extending the exemption in paragraph D16(a) to CTD would not eliminate all the potential differences between the amounts reported by the parent and its subsidiary. Differences could arise when, for example, a subsidiary that is a first-time adopter later than its parent applies the exemption in paragraph D16(a) to the measurement of assets and liabilities, but adjustments have been made for consolidation procedures or for the effects of the business combination in which the parent acquired the subsidiary.

(b) As described in Agenda Paper 5C from the September 2017 Committee meeting, although more costly than using the same amounts, we think the cost and effort to maintain two sets of records relating to CTD is not overly burdensome.

(c) Any amendment to IFRS 1 would not benefit entities that have already adopted IFRS Standards before the finalisation of these amendments.

37. In addition, the Committee noted that there is always a cost associated with standard-setting, no matter how narrow the scope.

The Committee's conclusions

38. Considering the potential benefits and costs discussed above in paragraphs 34–37, the Committee concluded that the potential benefits of undertaking a narrow-scope standard-setting project on this matter are likely to outweigh the potential costs. Consequently, the Committee recommended that the Board propose to amend IFRS 1 to provide a subsidiary that applies paragraph D16(a) of IFRS 1 with additional relief for CTD.

39. The Committee, however, did not conclude on whether such relief should be an option or requirement for a subsidiary that applies paragraph D16(a) of IFRS 1. We have considered this in paragraphs 40–43 below.

Proposed amendment

Option or requirement

40. If the Board agrees with the staff recommendation to amend IFRS 1, one Committee member asked whether the proposed relief would be provided as an option or requirement for a subsidiary that applies paragraph D16(a) of IFRS 1.

41. We think there are reasons to support both alternatives. On the one hand, one could argue that the Board should provide the proposed relief as an option. The Board will provide it for practical reasons and, therefore, it should have the same status as the

exemptions included in Appendix D to IFRS 1—a first-time adopter should be able to choose which exemptions it applies and does not apply.

42. On the other hand, reasons for making the proposed relief a requirement for subsidiaries that apply paragraph D16(a) are as follows:

(a) It would be consistent with the existing requirement in paragraph D16(a). If a subsidiary applies paragraph D16(a), the subsidiary has to measure all its assets and liabilities based on its parent's date of transition to IFRSs. It cannot choose the assets and liabilities to which it applies the exemption in paragraph D16(a)—it is an 'all or nothing' exemption. Accordingly, any relief proposed should be an incremental layer of relief in paragraph D16(a).

(b) The reason for any amendment to IFRS 1 would be to remove a potential difference in the amounts of CTD reported by a subsidiary and its parent, in order to reduce complexity and alleviate practical concerns that such a subsidiary might otherwise have.

(c) Providing an option is likely to be unnecessary. We think it unlikely that a subsidiary applying paragraph D16(a) would voluntarily elect to have a difference in CTD between its financial statements and its parent's consolidated financial statements. Such a subsidiary would presumably have chosen to apply the exemption in paragraph D16(a) to eliminate potential differences.

43. Based on this analysis, we recommend that the Board make the proposed relief a requirement for a subsidiary that applies paragraph D16(a) of IFRS 1.

44. If the Board agrees with our recommendation, the Board could propose to amend IFRS 1, for example, along the lines of the following (new text is underlined and deleted text struck through):

> D16 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets<u>,</u> ~~and~~ liabilities <u>and cumulative translation differences</u> at either:

(a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary (this election is not available to a subsidiary of an investment entity, as defined in IFRS 10, that is required to be measured at fair value through profit or loss); or

(b) …

Does this matter meet the annual improvement criteria?

45. Paragraphs 6.11–6.14 of the *Due Process Handbook* include the criteria for annual improvements. To meet these criteria, the proposed solution would need to be limited to:

    (a) clarifying the wording in a Standard; or

    (b) correcting relatively minor unintended consequences, oversights or conflicts between existing requirements.

46. The proposed solution as described in paragraph 44 of this paper would be more than clarifying existing requirements in IFRS 1 and therefore does not meet the criteria in paragraph 45(a). However, we think it meets the criteria in paragraph 45(b) because the proposed relief would be consistent with the rationale underlying the exemption in paragraph D16(a) of IFRS 1. It merely proposes to extend the exemption in that paragraph to CTD.

47. Consequently, we recommend that the Board include the proposed amendment in its next Annual Improvement Cycle.

Questions for the Board

1. Does the Board agree with our recommendation to propose an amendment to IFRS 1 to require a subsidiary that applies paragraph D16(a) of IFRS 1 to measure CTD using the amounts reported by the parent, based on the parent's date of transition to IFRSs (subject to any adjustments made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary)?

2. Does the Board agree with our recommendation to include this proposed amendment in its next Annual Improvement Cycle?

Appendix A—Review of publicly available financial statements

A1. We reviewed publicly available financial statements to understand the magnitude and prevalence of items included in Accumulated Other Comprehensive Income (AOCI).

A2. We used S&P Capital IQ database to select companies for this purpose. We selected 110 companies—two companies with the highest market capitalisation across the five regional and 11 primary industry categories available in the database as listed below. Because some companies' financial statements were not publicly available, the findings in this paper are based on the financial statements of 92 companies.

Regions	Industries
Europe	Energy
Asia / Pacific	Real Estate
Africa / Middle East	Materials
United States and Canada	Industrials
Latin America and Caribbean	Consumer Discretionary
	Consumer Staples
	Healthcare
	Financials
	Information Technology
	Telecommunication Services
	Utilities

A3. The following shows the average proportion of each item within AOCI relative to total AOCI.

CTD	Remeasurement of pension plans	Cash flow hedge reserve	Unrealised gain or loss on financial instruments	Revaluation surplus for property, plant and equipment (PPE)	Total
48.3%	7.3%	11.8%	23.9%	8.7%	100.0%

A4. The following shows the number and percentage of companies reporting each item included in AOCI.

CTD	Remeasurement of pension plans	Cash flow hedge reserve	Unrealised gain or loss on financial instruments	Revaluation surplus for PPE
53	15	34	36	8
57.0%	16.1%	36.6%	38.7%	8.6%

Appendix B—Excerpts from IFRS 1

B1. The following reproduces the exceptions and exemptions in IFRS 1 discussed in this paper.

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Appendix B—Exceptions to the retrospective application of other IFRSs

Hedge accounting

…

B6 If, before the date of transition to IFRSs, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in IFRS 9, the entity shall apply paragraphs 6.5.6 and 6.5.7 of IFRS 9 to discontinue hedge accounting. Transactions entered into before the date of transition to IFRSs shall not be retrospectively designated as hedges.

Non-controlling interests

B7 A first-time adopter shall apply the following requirements of IFRS 10 prospectively from the date of transition to IFRSs:

(a) the requirement in paragraph B94 that total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;

(b) the requirements in paragraphs 23 and B96 for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and

(c) the requirements in paragraphs B97–B99 for accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

However, if a first-time adopter elects to apply IFRS 3 retrospectively to past business combinations, it shall also apply IFRS 10 in accordance with paragraph C1 of this IFRS.

Appendix C—Exemptions for business combinations

C1 A first-time adopter may elect not to apply IFRS 3 retrospectively to past business combinations (business combinations that occurred before the date of transition to IFRSs). 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. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 20X6, it shall restate all business combinations that occurred between 30 June 20X6 and the date of transition to IFRSs, and it shall also apply IFRS 10 from 30 June 20X6.

Appendix D—Exemptions from other IFRSs

Deemed cost

D5 An entity may elect to measure an item of property, plant and equipment at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost at that date.

Cumulative translation differences

D12 IAS 21 requires an entity:

(a) to recognise some translation differences in other comprehensive income and accumulate these in a separate component of equity; and

(b) on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) from equity to profit or loss as part of the gain or loss on disposal.

D13 However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to IFRSs. If a first-time adopter uses this exemption:

(a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRSs; and

(b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to IFRSs and shall include later translation differences.

Assets and liabilities of subsidiaries, associates and joint ventures

D16 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:

(a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary (this election is not available to a subsidiary of an investment entity, as defined in IFRS 10, that is required to be measured at fair value through profit or loss); or

(b) the carrying amounts required by the rest of this IFRS, based on the subsidiary's date of transition to IFRSs. These carrying amounts could differ from those described in (a):

(i) when the exemptions in this IFRS result in measurements that depend on the date of transition to IFRSs.

(ii) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in IAS 16 *Property, Plant and Equipment*, whereas the group may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

Compound financial instruments

D18 IAS 32 *Financial Instruments: Presentation* requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of IAS 32 involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, in accordance with this IFRS, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to IFRSs.