Staff paper

Agenda reference: 13C

IASB® meeting

Date	**July 2026**
Project	**Equity Method**
Topic	**Transition requirements for first-time adopters**
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Purpose of this paper

1. The purpose of this paper is for the International Accounting Standards Board (IASB) to consider transition requirements for first-time adopters of IFRS Accounting Standards applying IAS 28 *Investments in Associates and Joint Ventures* (revised 202x) in their first IFRS financial statements.

2. This paper should be read in conjunction with Agenda Paper 13B *Transition requirements in IAS 28 (revised 202x)*.

3. References to 'investor', 'associate' and 'significant influence' should be read as also referring to 'joint venturer', 'joint venture' and 'joint control' in relation to investments in joint ventures in consolidated financial statements.[1]

[1] Entities are permitted to use the equity method in separate financial statements for investments in subsidiaries, joint ventures and associates.

Staff recommendations

4. The staff recommends that the IASB:

   (a) clarifies that the exemption in paragraph C5 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* for past acquisitions of investments in associates also applies on purchase of an additional ownership interest while retaining significant influence; and

   (b) does not include in IFRS 1 any other specific transition requirements for the amendments to IAS 28.

Structure of this paper

5. This paper is structured as follows:

   (a) introduction (paragraphs 7–16 of this paper);

   (b) recognition and initial measurement of an investment in an associate (paragraphs 17–20 of this paper);

   (c) contingent consideration (paragraphs 21–23 of this paper);

   (d) purchase of an additional ownership interest (paragraphs 24–29 of this paper);

   (e) other amendments relating to changes in ownership interests (paragraphs 30–33 of this paper);

   (f) gains and losses from transactions with associates (paragraphs 34–42 of this paper);

   (g) impairment indicators (paragraphs 43–46 of this paper);

   (h) other reliefs (paragraphs 47–51 of this paper); and

   (i) summary of staff recommendations and question for the IASB (paragraph 52 of this paper).

6. The appendix to this paper includes an extract from Appendix C *Exemptions* for business combinations of IFRS 1.

Introduction

7. The Exposure Draft *Equity Method of Accounting—IAS 28* Investments in Associates and Joint Ventures *(revised 202x)* (the Exposure Draft) did not propose amendments to IFRS 1.

8. A few respondents, mainly accounting firms and accounting professional bodies, said that the IASB should consider transition requirements for first-time adopters. Their comments included that:

   (a) it is unclear how the exemption in paragraph C5 of IFRS 1 for past acquisitions in investments in associates would interact with some of the proposed requirements in the Exposure Draft, such as whether that exemption applies only to the initial acquisition of the investment in an associate or whether it also applies to the purchase of additional ownership interests; and

   (b) the IASB should consider providing similar reliefs in IFRS 1 for first-time adopters as those that were proposed in the Exposure Draft for entities already applying IFRS Accounting Standards.

9. The Accounting Standards Board of Japan said:

> … we believe that the benefit of the proposed transition requirements should be equally applicable to first-time adopters. However, the IASB is silent in the Basis for Conclusion with regard to its consideration of the applicability to first-time adopters. Accordingly, we recommend the IASB to further consider providing the transitional provisions to the first-time adopters before finalising the amendments to IAS 28.

10. The transitional provisions in IAS 28 (revised 202x) will not apply to a first-time adopter. Paragraph 9 of IFRS 1 states that the transitional provisions in other IFRS Accounting Standards apply to entities that already use IFRS Accounting Standards and do not apply to a first-time adopter's transition to IFRS Accounting Standards (except as specified in Appendices B–E of IFRS 1).

11. Unless exceptions and exemptions apply, paragraph 10 of IFRS 1 requires a first-time adopter, in its opening IFRS statement of financial position at its date of transition to IFRS Accounting Standards, to:

    (a) recognise all assets and liabilities whose recognition is required by IFRS Accounting Standards;

    (b) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity but a different type of asset, liability or component of equity in accordance with IFRS Accounting Standards; and

    (c) apply IFRS Accounting Standards in measuring all recognised assets and liabilities.

12. Appendix C of IFRS 1 provides an exemption that allows a first-time adopter to elect not to apply IFRS 3 *Business Combinations* retrospectively to past business combinations. Paragraph C5 of IFRS 1 states that this exemption also applies to past acquisitions of investments in associates and interests in joint ventures.

13. Also, Appendix D *Exemptions from other IFRSs* of IFRS 1 contains some specific transition provisions relating to:

    (a) a first-time adopter that accounts for its investments in subsidiaries, joint ventures and associates using the equity method in its separate financial statements (paragraph 15A of IFRS 1); and

    (b) measuring the assets and liabilities of an associate or joint venture if the investor becomes a first-time adopter earlier or later than its associate or joint venture (paragraphs D16–D17 of IFRS 1).

14. Paragraphs 17–46 of this paper set out the staff analysis of how a first-time adopter that applies the exemption in paragraph C5 of IFRS 1 would transition to IAS 28 (revised 202x) for the key amendments to IAS 28, compared with the transition requirements for investors already applying IFRS Accounting Standards. However, it should be noted that in developing IFRS 1, the IASB decided:

(a) comparability within a first-time adopter's first IFRS financial statements is more important than comparability with entities that already apply IFRS Accounting Standards (see paragraph BC10 of the Basis for Conclusions on IFRS 1).

(b) when considering whether to permit or require a first-time adopter to apply prospectively the requirements in IFRS Accounting Standards in its first IFRS financial statements, the IASB decided not to adopt a general policy of giving first-time adopters the same accounting policy options as are sometimes provided for entities already applying IFRS Accounting Standards, because that would conflict with the IASB's primary objective of comparability within an entity's first IFRS financial statements (see paragraphs BC13(b) of the Basis for Conclusions on IFRS 1).

(c) the IASB would consider case by case when it issues a new IFRS Accounting Standard whether a first-time adopter should apply that Standard retrospectively or prospectively. The IASB expected that retrospective application will be appropriate in most cases, given its primary objective of comparability over time within an entity's first IFRS financial statements. However, the IASB will amend IFRS 1 if it concludes in a particular case that prospective application by a first-time adopter is justified (see paragraph BC14 of the Basis for Conclusions on IFRS 1).

15. Therefore, although the analysis in this paper discusses the transition requirements for investors already applying IFRS Accounting Standards as a matter to consider, the analysis does not apply a general principle that the same transition requirements should also apply to first-time adopters.

16. It also should be noted that:

(a) this paper does not consider transition issues that could arise if a first-time adopter chose not to apply the exemption in paragraph C5 of IFRS 1. In the staff view, the IASB need not consider any such issues because it seems unlikely that a first-time adopter would make such a choice. Also, the entity could avoid any such issues by choosing to apply the exemption.

(b) the staff analysis in this paper assumes that the IASB agrees with the staff recommendations in Agenda Paper 13B on the transition requirements for investors already applying IFRS Accounting Standards.

Recognition and initial measurement of an investment in an associate

17. The amendments to IAS 28 relating to the recognition and initial measurement of an investment in an associate will require an investor to:

(a) measure the cost of an associate at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate;

(b) recognise contingent consideration as part of the consideration transferred, measured at fair value;

(c) include deferred taxes related to fair value adjustments in the carrying amount of the investment in an associate; and

(d) recognise acquisition-related costs as expenses in profit or loss in the periods in which the costs are incurred.

18. Except for contingent consideration (discussed in paragraphs 21–23 of this paper), an investor already applying IFRS Accounting Standards would not be required to make any adjustments to its investments in associates acquired before the transition date, because the amendments to IAS 28 will apply prospectively (see paragraph C3 of the Exposure Draft and the staff recommendation in paragraph 71 of Agenda Paper 13B to confirm this proposed transition requirement).[2]

[2] In this paper, 'the transition date' means the date of transition to IFRS Accounting Standards for a first-time adopter and the date of transition to IAS 28 (revised 202x) for an investor already IFRS Accounting Standards.

19. Similarly, a first-time adopter applying the exemption in paragraph C5 of IFRS 1 would not be required to make any adjustments to its investments in associates acquired before the transition date. For example, it would not adjust deferred taxes (if any) included in the carrying amount of the investment, to avoid an adjustment to goodwill included in that carrying amount (see paragraph C4(g)-(h) of IFRS 1).

20. In the staff view, given the existing exemption in paragraph C5 of IFRS 1, it is not necessary to consider providing any further transition requirements for first-time adopters in relation to the amendments to IAS 28 described in paragraph 17 of this paper.

Contingent consideration

21. The amendments to IAS 28 will require an investor to recognise contingent consideration as part of the consideration transferred for an investment in an associate, measured at fair value. The investor will classify the obligation to pay contingent consideration as a financial liability or an equity instrument on the basis of the definitions in IAS 32 *Financial Instruments: Presentation*.

22. Table 1 sets out the staff analysis of the transition requirements for contingent consideration in relation to investments in associates acquired before the transition date. The analysis covers three scenarios:

    (a) contingent consideration settled before the transition date;

    (b) contingent consideration not yet settled at the transition date and classified as a financial liability; and

    (c) contingent consideration not yet settled at the transition date and classified as an equity instrument.

Table 1—Contingent consideration

Transition for first-time adopter applying exemption in IFRS 1 paragraph C5	Transition for investor already applying IFRS Accounting Standards
(a) No restatement required, as covered by the exemption.	(a) No restatement required, as paragraph C6 of the Exposure Draft will apply only to outstanding contingent consideration obligations (see the staff recommendation in paragraph 45 of Agenda Paper 13B).
(b) No restatement of investment, as covered by the exemption. Measure the liability at fair value at the transition date and adjust retained earnings (see IFRS 1 paragraph C4(d)).	(b) Measure the liability at fair value at the transition date and adjust the carrying amount of the investment (see paragraph C6 of the Exposure Draft).
(c) No restatement of investment, as covered by the exemption. Account for settlement within equity, even if no amount was included in the cost of the investment on initial recognition, to avoid an adjustment to goodwill included in the carrying amount of the investment (see IFRS 1 paragraph C4(g)-(h)).	(c) No restatement of investment if contingent consideration measured at fair value on obtaining significant influence (see paragraph C7 of the Exposure Draft); otherwise measure at fair value at the transition date and adjust the carrying amount of the investment (see paragraph C6 of the Exposure Draft). Account for settlement within equity.

23. In general, the outcome for a first-time adopter applying the exemption in paragraph C5 of IFRS 1 is largely the same as for an investor already applying IFRS Accounting Standards. In the second and third scenarios, there is a difference in where the adjustment is recognised: in retained earnings (for a first-time adopter) or in the carrying amount of the investment (for an investor already applying IFRS Accounting

Standards). However, in the staff view, that difference does not warrant adding a specific transition requirement into IFRS 1.

Purchase of an additional ownership interest

24. The amendments to IAS 28 will require an investor to account for the purchase of an additional ownership interest in an associate as an accumulation of purchases. In many respects, those requirements are similar to those that apply on obtaining significant influence of the associate. For example, an investor would:

    (a) measure the consideration transferred for the additional ownership interest at fair value, including contingent consideration;

    (b) include in the carrying amount of the investment its additional share of the fair value of the associate's identifiable assets and liabilities, subject to a relief;[3] and

    (c) include deferred taxes related to fair value adjustments (if any) in the carrying amount of the investment.

25. These requirements will also apply to an increase in the investor's ownership interest resulting from an associate's redemption of shares.

26. An investor already applying IFRS Accounting Standards will apply prospectively these amendments to IAS 28 (see paragraph C3 of the Exposure Draft and the staff recommendation in paragraph 71 of Agenda Paper 13B to confirm this proposed transition requirement), except for outstanding contingent consideration obligations at the transition date (discussed in paragraphs 21–23 of this paper).

27. A few respondents to the Exposure Draft asked the IASB to clarify whether the exemption for 'past acquisitions of investments in associates' in paragraph C5 of IFRS 1 applies only to the past acquisition of the investment on obtaining significant

[3] At its March 2026 meeting, the IASB tentatively agreed to provide a relief from the requirement to measure at fair value the investor's additional share of the associate's identifiable assets and liabilities, which an investor could apply if it meets the qualifying criterion, as described in IASB Update.

influence or also applies to past purchases of additional ownership interests (see paragraph 8(a) of this paper).

28. In the staff view, the exemption in paragraph C5 of IFRS 1 should also apply to purchases of additional ownership interests before the transition date because:

   (a) the accounting requirements for the purchase of an additional ownership interest are largely similar to the accounting requirements when obtaining significant influence of the associate; and

   (b) retrospective application of the requirements to be included in IAS 28 (revised 202x) on the purchase of an additional ownership interest would likely be complex and costly, and could involve the use of hindsight (for example, to measure the fair value of the associate's identifiable assets and liabilities, if the relief from fair value measurement does not apply)—which is why the IASB decided to propose prospective application of the requirements for investors already applying IFRS Accounting Standards.

29. The staff also think that applying the exemption in paragraph C5 of IFRS 1 to past purchases of additional ownership interests in an associate would be consistent with its application to past purchases of additional interests in a joint operation. Paragraph 21A of IFRS 11 *Joint Arrangements* specifies requirements that apply to the acquisition of the initial interest in a joint operation and to the acquisition of additional interests. When adding those requirements in 2014, the IASB amended paragraph C5 of IFRS 1 so that the exemption for past business combinations also applied to past acquisitions of 'interests' in joint operations, which would include both the initial interest and additional interests.

Other amendments relating to changes in ownership interests

30. IAS 28 (revised 202x) will include other amendments to IAS 28 that relate to specific types of changes in an investor's ownership interest while retaining significant influence, namely:

   (a) the disposal of a portion of an investor's ownership interest in an associate;

(b) a decrease in the investor's ownership interest resulting from an associate's issue of shares; and

(c) accounting for unrecognised losses on the purchase of an additional ownership interest.

31. An investor already applying IFRS Accounting Standards will be required to apply these amendments to IAS 28 prospectively (see paragraph C3 of the Exposure Draft and the staff recommendation in paragraph 71 of Agenda Paper 13B to confirm this proposed transition requirement).

32. The staff considered whether the IASB should provide a specific exemption in IFRS 1 to permit a first-time adopter to apply prospectively these amendments to IAS 28. Prospective application of these amendments to IAS 28 would affect only the carrying amount of an investment in an associate in the entity's opening IFRS statement of financial position; it would not impact on comparability within the entity's first IFRS financial statements.

33. However, given that there many other requirements in IAS 28 for which IFRS 1 does not provide specific transition requirements, it seems inconsistent with the general approach in IFRS 1 to add transition requirements for these specific amendments. For example, IAS 28 contains other requirements on the recognition of losses. Furthermore, adding specific transition requirements for these amendments would add complexity to IFRS 1, which could be unhelpful to first-time adopters.

Gains and losses from transactions with associates

34. At its May 2026 meeting, the IASB tentatively decided to introduce an accounting policy choice that permits an investor to choose either full recognition or restricted recognition of gains and losses from transactions with associates, except for gains or losses on transfer of a business, which would be recognised in full. The IASB also tentatively decided to make related amendments to IFRS 10 *Consolidated Financial Statements* and, at its June 2026 meeting, to make related amendments to IAS 27 *Separate Financial Statements*.

35. Paragraphs 14–32 of Agenda Paper 13B discuss the transition requirements relating to these amendments for investors already applying IFRS Accounting Standards.

36. On transition to IFRS Accounting Standards, a first-time adopter's accounting policy on recognising gains or losses from transactions with associates could change, depending on:

    (a) the accounting policy applied in accordance with its previous GAAP; and

    (b) its accounting policy choice between full and restricted recognition of gains and losses from transactions with associates on transition.

37. In some cases, a first-time adopter's accounting policy might not change. For example, its previous GAAP might not have required the restriction of gains and losses from transactions with associates and the entity might chose to continue recognising these gains and losses in full on transition to IFRS Accounting Standards.

38. In theory, it is possible that a first-time adopter's accounting policy could change from *full* recognition to *restricted* recognition of gains and losses. This situation could occur if the first-time adopter's previous GAAP did not require the restriction of gains or losses from transactions with associates but the entity chose to restrict such gains and losses on transition to IFRS Accounting Standards. However, this situation is unlikely to be common because it would entail a first-time adopter choosing a new accounting policy that is more complex and costly to apply than its previous accounting policy.

39. Alternatively, a first-time adopter's policy could change from *restricted* recognition to *full* recognition of gains and losses. This situation could occur if the first-time adopter's previous GAAP requirements included some type of restriction on recognising gains and losses from transactions with associates and the entity chose to recognise in full these gains and losses on transition to IFRS Accounting Standards. This change in accounting policy is broadly similar to the change in accounting policy discussed in Agenda Paper 13B for an investor already applying IFRS Accounting Standards (in terms of a change from restricted to full recognition of gains and losses).

In paragraph 32 of that paper, the staff recommends that the IASB confirm its proposal in the Exposure Draft to require retrospective application of this change in accounting policy, subject to clarifying that this requirement:

(a) is subject to the 'impracticable' limitation on retrospective application in IAS 8; and

(b) applies only to the remaining portion of a previously restricted gain or loss at the transition date.

40. Similarly, applying the general requirements in IFRS 1, a first-time adopter would also apply its change in accounting policy retrospectively. Also similarly, retrospective application of this change in policy applies only if (and to the extent that) a previously restricted gain or loss had not been released before the transition date.

41. The 'impracticable' limitation on retrospective application in IAS 8 would not apply to a first-time adopter, because IAS 8 does not apply to a first-time adopter's changes in accounting policies (see paragraph 27 of IFRS 1). When developing IFRS 1, the IASB decided not to include a similar exemption in IFRS 1. The IASB expected that most first-time adopters would begin planning on a timely basis for the transition to IFRS Accounting Standards. Accordingly, in balancing costs and benefits, the IASB took as its benchmark an entity that plans for transition well in advance and can collect most information needed for its opening IFRS balance sheet at, or very soon after, the date of transition.[4]

42. Applying this benchmark suggests that a first-time adopter should have the information necessary to apply retrospectively a change in accounting policy from restricted to full recognition of gains and losses from transactions with associates. Also, in some cases, retrospective application might not require any additional effort because of other requirements or exemptions in IFRS 1. For example, if a first-time adopter had eliminated the restricted portion of a gain in an upstream transaction

[4] See paragraph B26–B27 of the Basis for Conclusions to IFRS 1.

against the carrying amount of an asset purchased from an associate under its previous GAAP, any remaining balance of that restricted gain might be removed automatically when measuring the asset on transition, such an item of property, plant or equipment that is measured at fair value at the transition date when using the 'deemed cost' exemption in paragraph D5 of IFRS 1.

Impairment indicators

43. The amendments to IAS 28 will amend the impairment indicators in the Standard:

    (a) to replace 'decline…below cost' in paragraph 41C of IAS 28 with 'decline…to less than its carrying amount';

    (b) to remove the reference to a 'significant or prolonged' decline in fair value; and

    (c) to add requirements to IAS 28 explaining that information about the fair value of the associate's equity instruments might be observed from the price paid to purchase an additional interest in the associate or received to sell part of the interest, or from a quoted market price for those equity instruments.

44. An investor already applying IFRS Accounting Standards will be required to apply these amendments to IAS 28 prospectively (see paragraph C3 of the Exposure Draft and the staff recommendation in paragraph 71 of Agenda Paper 13B to confirm this proposed transition requirement).

45. IFRS 1 does not contain any specific transition requirements relating to the impairment of an investment in an associate. When applying the general requirement in IFRS 1 to measure assets and liabilities in accordance with IFRS Accounting Standards in a first-time adopter's opening IFRS statement of financial position to an investment, the entity would:

    (a) consider the impairment indicators in IAS 28 (revised 202x) to determine whether to test an investment in an associate for impairment in accordance with IAS 36 *Impairment of Assets*; and

(b) if necessary, adjust its measurement of the investment to equal the investment's recoverable amount.

46. Accordingly, a first-time adopter would consider the amended impairment indicators in IAS 28 (revised 202x) as part of the process of preparing its opening IFRS statement of financial position. Therefore, in the staff view, it is not necessary to include a specific transition requirement in IFRS 1 for the amendments to the impairment indicators in IAS 28.

Other reliefs

47. In the Exposure Draft, for investors already applying IFRS Accounting Standards, the IASB proposed:

    (a) a relief for an investor presenting more than one period of comparative information from restating any additional prior period presented; and

    (b) a relief from disclosing the effects of the proposed requirements on the current period or any unadjusted additional prior period (as required by paragraph 28(f) of IAS 8).

48. In paragraph 77 of Agenda Paper 13B, the staff recommends that the IASB confirms these proposals.

49. In relation to the relief described in paragraph 47(a) of this paper, the staff notes that:

    (a) paragraph 21 of IFRS 1 specifies minimum information to be included in a first-time adopter's first IFRS financial statements, which includes three statements of financial position and two statements of profit or loss and other comprehensive income.

    (b) paragraph 22 of IFRS 1 specifies requirements for entities that include historical summaries of selected data for periods before the first period for which they present full comparative information in accordance with IFRS Accounting Standards. IFRS 1 does not require such historical summaries to comply with IFRS Accounting Standards.

(c) IFRS 1 defines the 'date of transition to IFRSs' as the beginning of the earliest period for which an entity presents full comparative information under IFRSs in its first IFRS financial statements'. Therefore, if a first-time adopter chose to present *full* comparative information for a period additional to that required by IFRS 1, its transition date would be the beginning of the earliest period presented.

(d) paragraph 7 of IFRS 1 requires a first-time adopter to use the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements. Furthermore, paragraph 8 of IFRS 1 prohibits a first-time adopter from applying different versions of IFRS Accounting Standards that were effective at earlier dates. Therefore, a first-time adopter would be required to apply IAS 28 (revised 202x) throughout all periods presented.

50. The staff does not recommend providing first-time adopters with a relief from restating additional prior periods presented because it would be inconsistent with the IASB's primary objective of comparability within an entity's first IFRS financial statements. The staff notes that when developing IFRS 15 *Revenue from Contracts with Customers*, the IASB decided not to provide first-time adopters an option to apply the modified retrospective approach available in IFRS 15 for entities already applying IFRS Accounting Standards because:

(a) the approach is not consistent with the principles of IFRS 1—it would eliminate comparability within a first-time adopter's first IFRS financial statements by providing relief from restating comparative years; and

(b) the approach might not reduce the burden of retrospective application because it would potentially require two separate reconciliations of equity—one for transition to IFRS Accounting Standards and one for transition to IFRS 15.[5]

[5] See paragraphs BC507–BC508 of the Basis for Conclusions on IFRS 15.

51. In relation to the relief in paragraph 47(b) of this paper, it is not necessary for the IASB to consider providing a similar relief to first-time adopters, because IAS 8 does not apply to changes in accounting policies made by first-time adopters (see paragraph 27 of IFRS 1).

Summary of staff recommendations and question for the IASB

52. The staff recommends that the IASB:

(a) clarifies that the exemption in paragraph C5 of IFRS 1 for past acquisitions of investments in associates also applies on purchase of an additional ownership interest while retaining significant influence; and

(b) does not include in IFRS 1 any other specific transition requirements for the amendments to IAS 28.

Question for the IASB
Does the IASB agree with the recommendations in paragraph 52 of this paper?

Appendix—Extract from IFRS 1 *First-time Adoption of International Financial Reporting Standards*

A1. This appendix contains an extract from Appendix C of IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Appendix C

Exemptions for business combinations

This appendix is an integral part of the IFRS. An entity shall apply the following requirements to business combinations that the entity recognised before the date of transition to IFRSs. This Appendix should only be applied to business combinations within the scope of IFRS 3 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.

C2 An entity need not apply IAS 21 *The Effects of Changes in Foreign Exchange Rates* retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to IFRSs. If the entity does not apply IAS 21 retrospectively to those fair value adjustments and goodwill, it shall treat them as assets and liabilities of the entity rather than as assets and liabilities of the acquiree. Therefore, those goodwill and fair value adjustments either are already expressed in the entity’s functional currency or are non-monetary foreign currency items, which are reported using the exchange rate applied in accordance with previous GAAP.

C3 An entity may apply IAS 21 retrospectively to fair value adjustments and goodwill arising in either:

(a) all business combinations that occurred before the date of transition to IFRSs; or

(b) all business combinations that the entity elects to restate to comply with IFRS 3, as permitted by paragraph C1 above.

C4 If a first-time adopter does not apply IFRS 3 retrospectively to a past business combination, this has the following consequences for that business combination:

(a) The first-time adopter shall keep the same classification (as an acquisition by the legal acquirer, a reverse acquisition by the legal acquiree, or a uniting of interests) as in its previous GAAP financial statements.

(b) The first-time adopter shall recognise all its assets and liabilities at the date of transition to IFRSs that were acquired or assumed in a past business combination, other than:

(i) some financial assets and financial liabilities derecognised in accordance with previous GAAP (see paragraph B2); and

(ii) assets, including goodwill, and liabilities that were not recognised in the acquirer’s consolidated statement of financial position in accordance with previous GAAP and also would not qualify for recognition in accordance with

IFRSs in the separate statement of financial position of the acquiree (see (f)–(i) below).

The first-time adopter shall recognise any resulting change by adjusting retained earnings (or, if appropriate, another category of equity), unless the change results from the recognition of an intangible asset that was previously subsumed within goodwill (see (g)(i) below).

(c) The first-time adopter shall exclude from its opening IFRS statement of financial position any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under IFRSs. The first-time adopter shall account for the resulting change as follows:

(i) the first-time adopter may have classified a past business combination as an acquisition and recognised as an intangible asset an item that does not qualify for recognition as an asset in accordance with IAS 38 *Intangible Assets*. It shall reclassify that item (and, if any, the related deferred tax and non-controlling interests) as part of goodwill (unless it deducted goodwill directly from equity in accordance with previous GAAP, see (g) (i) and (i) below).

(ii) the first-time adopter shall recognise all other resulting changes in retained earnings.[6]

(d) IFRSs require subsequent measurement of some assets and liabilities on a basis that is not based on original cost, such as fair value. The first-time adopter shall measure these assets and liabilities on that basis in its opening IFRS statement of financial position, even if they were acquired or assumed in a past business combination. It shall recognise any resulting change in the carrying amount by adjusting retained earnings (or, if appropriate, another category of equity), rather than goodwill.

(e) Immediately after the business combination, the carrying amount in accordance with previous GAAP of assets acquired and liabilities assumed in that business combination shall be their deemed cost in accordance with IFRSs at that date. If IFRSs require a cost-based measurement of those assets and liabilities at a later date, that deemed cost shall be the basis for cost-based depreciation or amortisation from the date of the business combination.

(f) If an asset acquired, or liability assumed, in a past business combination was not recognised in accordance with previous GAAP, it does not have a deemed cost of zero in the opening IFRS statement of financial position. Instead, the acquirer shall recognise and measure it in its consolidated statement of financial position on the basis that IFRSs would require in the statement of financial position of the acquiree. To illustrate: if the acquirer had not, in accordance with its previous GAAP, capitalised leases acquired in a past business combination in which the acquiree was a lessee, it shall capitalise those leases in its consolidated financial statements, as IFRS 16 Leases would require the acquiree to do in its IFRS statement of financial position. Similarly, if the acquirer had not, in accordance with its previous GAAP, recognised a contingent liability that still exists at the date of transition to IFRSs, the acquirer shall recognise that contingent liability at that date unless IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* would prohibit its recognition in the financial statements of the acquiree. Conversely, if an asset or liability was subsumed in goodwill in accordance with previous GAAP but would have been recognised separately under IFRS 3, that

[6] Such changes include reclassifications from or to intangible assets if goodwill was not recognised in accordance with previous GAAP as an asset. This arises if, in accordance with previous GAAP, the entity (a) deducted goodwill directly from equity or (b) did not treat the business combination as an acquisition.

asset or liability remains in goodwill unless IFRSs would require its recognition in the financial statements of the acquiree.

(g) The carrying amount of goodwill in the opening IFRS statement of financial position shall be its carrying amount in accordance with previous GAAP at the date of transition to IFRSs, after the following two adjustments:

(i) If required by (c)(i) above, the first-time adopter shall increase the carrying amount of goodwill when it reclassifies an item that it recognised as an intangible asset in accordance with previous GAAP. Similarly, if (f) above requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill in accordance with previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill accordingly (and, if applicable, adjust deferred tax and non-controlling interests).

(ii) Regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply IAS 36 in testing the goodwill for impairment at the date of transition to IFRSs and in recognising any resulting impairment loss in retained earnings (or, if so required by IAS 36, in revaluation surplus). The impairment test shall be based on conditions at the date of transition to IFRSs.

(h) No other adjustments shall be made to the carrying amount of goodwill at the date of transition to IFRSs. For example, the first-time adopter shall not restate the carrying amount of goodwill:

(i) to exclude in-process research and development acquired in that business combination (unless the related intangible asset would qualify for recognition in accordance with IAS 38 in the statement of financial position of the acquiree);

(ii) to adjust previous amortisation of goodwill;

(iii) to reverse adjustments to goodwill that IFRS 3 would not permit, but were made in accordance with previous GAAP because of adjustments to assets and liabilities between the date of the business combination and the date of transition to IFRSs.

(i) If the first-time adopter recognised goodwill in accordance with previous GAAP as a deduction from equity:

(i) it shall not recognise that goodwill in its opening IFRS statement of financial position. Furthermore, it shall not reclassify that goodwill to profit or loss if it disposes of the subsidiary or if the investment in the subsidiary becomes impaired.

(ii) adjustments resulting from the subsequent resolution of a contingency affecting the purchase consideration shall be recognised in retained earnings.

(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.

(k) The measurement of non-controlling interests and deferred tax follows from the measurement of other assets and liabilities. Therefore, the above adjustments to recognised assets and liabilities affect non-controlling interests and deferred tax.

C5 The exemption for past business combinations also applies to past acquisitions of investments in associates, interests in joint ventures and interests in joint operations in which the activity of the joint operation constitutes a business, as defined in IFRS 3. Furthermore, the date selected for paragraph C1 applies equally for all such acquisitions.