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IFRS Developments

Transition guidance amendments for IFRS 10, IFRS 11 and IFRS 12

What you need to know

- 'The date of initial application' in IFRS 10 is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'
- The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period
- If the control assessment is *different* between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined
- However, if the control assessment is *the same*, no retrospective application is required
- An investor should adjust comparative periods retrospectively if the consolidation conclusion reached at the date of initial application is different
- If more than one comparative period is presented, additional relief is given to require only one period to be restated
- Comparatives for the disclosures relating to unconsolidated structured entities under IFRS 12 are not required
- The amendments should be applied for annual periods beginning on or after 1 January 2013

Highlights

On 28 June 2012 the International Accounting Standards Board (IASB) issued amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. The amendments change the transition guidance to provide further relief from full retrospective application. This publication summarises the amendments and highlights the potential implications for entities.

Date of initial application

The IASB (the Board) decided to clarify the meaning of 'the date of initial application' in response to feedback from constituents that stated that this term is not defined and therefore means different things in different IFRSs. In its deliberations, the Board noted that the intention in IFRS 10 was to use the date of initial application as a reference point to determine which interests must be accounted for in terms of IFRS 10, i.e., the point at which the control assessment must be made. To this end, 'the date of initial application' is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'.

An entity should, therefore, assess whether the consolidation conclusion is the same or different under IAS 27 *Consolidated and Separate Financial Statements* / SIC-12 *Consolidation—Special Purpose Entities* and IFRS 10 at the date of initial application, and to apply the principles of IFRS 10 accordingly, taking into account the amendments below.

When the consolidation conclusion at the date of initial application is the same under IAS 27/SIC-12 and IFRS 10

The amendments clarify that 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 and when applying IFRS 10. As a result, the Board has confirmed that relief from retrospective application of IFRS 10 would also apply to an investor's interests in investees that were disposed of during a comparative period, such that consolidation would not occur in accordance with either IAS 27/SIC-12 or IFRS 10 at the date of initial application.

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... an entity need only make a retrospective adjustment for the annual period immediately preceding the date of initial application of IFRS 10.

Example

Consider the following fact pattern:

- Under IAS 27/SIC-12, an investee is not consolidated as of 1 January 2012
- If IFRS 10 had been applied as of 1 January 2012, the investee would have been consolidated
- During 2012, the investor sells the interest in the investee (or re-negotiates the terms of its arrangements), such that, as of 1 January 2013, when applying IFRS 10, the investee is not controlled by the investor
- IFRS 10 is applied as of 1 January 2013

The date of initial application of IFRS 10 in this fact pattern is 1 January 2013. As of that date, the investee is not controlled by the investor under either IAS 27/SIC-12 or IFRS 10. Therefore, the investor is relieved from retrospectively applying IFRS 10.

When the consolidation conclusion at the date of initial application is different under IAS 27/SIC-12 and IFRS 10

IFRS 10 (as issued in 2011) requires the investor to adjust comparative periods retrospectively if the consolidation conclusion reached at the date of initial application is different under IAS 27/SIC-12 and IFRS 10 — subject to the impracticability relief.

Commentators on the ED noted that retrospective application of IFRS 10 (as issued in 2011) would be onerous for entities where an investee was not previously consolidated — consolidation affects every line of the financial statements and the information may be difficult to obtain. This is particularly burdensome in cases where multiple prior period comparatives may be required by local legislative or regulatory requirements. The majority of the Board was sympathetic with these comments, and decided that an entity need only make a retrospective adjustment for the annual period immediately preceding the date of initial application of IFRS 10 ('the immediately preceding period'). The Board also agreed that an entity may present adjusted comparative information for any earlier comparative periods, but is not required to do so. If earlier comparative information is not restated, this must be made clear on the face of the financial statements.

How we see it

The amendment is particularly relevant for those jurisdictions where more than one year (sometimes, up to 5 years) of comparative information is required, e.g., foreign SEC registrants. While the relief provided may result in loss of comparability of information between periods, we believe that the benefits of this relief will often outweigh the costs that may have been incurred by affected entities.

The Board also clarified that, when applying the disclosure requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* on the presentation of quantitative information when initially applying IFRS 10, an entity need only present the quantitative information for the immediately preceding period and need not include the effect on the current or earlier comparative periods. An entity may present this information for the current period or for earlier comparative periods, but it is not required to do so.

Any difference between the previous carrying amounts and the amounts recognised on the retrospective application of IFRS 10 must be recognised as an adjustment to equity at the beginning of the immediately preceding period or the earliest adjusted comparative period presented, as appropriate.

The choice of version of IFRS 3 and IAS 27 for retrospective application of IFRS 10

If, upon applying IFRS 10, an investor determines that it controls an investee that was previously not consolidated, IFRS 10 requires the investor to apply acquisition accounting in accordance with IFRS 3 as of the date on which it obtained control, followed by consolidation accounting in accordance with IAS 27 thereafter. Both IFRS 3 and IAS 27 were revised in 2008, and the amended standards were required to be prospectively applied. For example, if an entity is consolidating an investee of which it obtained control in 2008 (as determined under IFRS 10), should the entity apply IFRS 3 (2004) (which was effective at that date), or IFRS 3 (2008) (which is effective at the date of initial application of IFRS 10)?

The Board decided to amend IFRS 10 to reflect that, when an investor concludes under IFRS 10 that it needs to consolidate an investee that was not previously consolidated, an entity can apply either the earlier or the revised versions of IFRS 3 and IAS 27, as appropriate to its circumstances.

How we see it

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*. IAS 28 previously referred to IFRS 3 (2004). Consequently, investors that acquired investees prior to the adoption of IFRS 3 (2008), and that equity accounted such investees using IAS 28, will already have identified fair values, goodwill and other amounts required by IFRS 3 (2004).

Therefore, by adding this clarification, the Board acknowledged that this information may provide a more reliable basis for consolidation, because it makes use of 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.

Related amendments to IFRS 11 and IFRS 12

For the same reasons as noted by commentators in the section above for IFRS 10, the Board has also amended IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* to provide transition relief, as follows:

- To limit the requirement to provide adjusted comparative information to the immediately preceding period only. Nevertheless, this information may be provided for earlier periods if the entity so chooses. If earlier comparative information is not restated, this should be made clear on the face of the financial statements.
- For the first year that IFRS 12 is applied, the requirement to present comparative information for the disclosures related to unconsolidated structured entities is removed.

Relief for first-time adopters

In its deliberations, the Board also considered whether similar transition relief could be provided for first-time adopters of IFRS. The Board decided against making that decision now, as the issues raised regarding retrospective application by first-time adopters were not specific to IFRS 10 and should be considered more comprehensively. The Board asked the staff to examine the issue for future consideration by the Board.

Effective date

The amendments are aligned with the effective date for IFRS 10, IFRS 11 and IFRS 12, i.e., entities are required to apply the amendments for annual periods beginning on or after 1 January 2013. If an entity applies IFRS 10 for an earlier period, it must apply these amendments for that earlier period.

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