

International Financial Reporting Standard

**Consolidated Financial Statements,
Joint Arrangements and Disclosure of Interests in
Other Entities: Transition Guidance**

June 2012

BASES FOR CONCLUSIONS – AMENDMENTS

[IFRS 1, 10, 11 & 12]

[Related to AASB 2012-10]

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Amendments to the Basis for Conclusions on IFRS 10 *Consolidated Financial Statements*

After paragraph BC196, paragraphs BC196A–BC196C are added. Paragraph BC196 is not amended, but is reproduced here for clarity.

BC196 In reaching its conclusions, the Board observed that IFRS 10 might result in an investor consolidating investees that were not previously consolidated or not consolidating investees that were previously consolidated. If an investor is required to consolidate a previously unconsolidated investee and has been accounting for its investment in that investee using proportionate consolidation or the equity method, the Board noted that the investor would often have the information available to consolidate the investee retrospectively as if IFRS 10 had always been in place. This is also likely to be the case if an investor no longer consolidates an investee that it previously consolidated but would now have to account for its investment in the investee using the equity method.

BC196A IFRS 3 *Business Combinations* was initially issued in 2004 and was then substantially revised in 2008. Those revisions apply prospectively. The Board noted that, when developing the transition guidance in paragraphs C4–C4A, it had not specified which version of IFRS 3 should be used when an investor concludes that it shall consolidate an investee that was not previously consolidated and over which control was obtained before the effective date of IFRS 3 (revised in 2008). Applying the current version of IFRS 3 in such cases may provide more comparable information.

BC196B However, as noted in BC196, if an investor has been accounting for its investment in such an investee using proportionate consolidation or the equity method, it will have already identified the fair values, goodwill and other amounts required to apply IFRS 3 (issued in 2004). Allowing investors to use existing information in such cases reduces the risk of using hindsight and may provide a more reliable basis for consolidation. Consequently, if control was obtained before the effective date of IFRS 3 (2008), the Board decided to allow entities to use either IFRS 3 (2008) or IFRS 3 (2004) in applying the transition requirements.

BC196C Similarly, IAS 27 *Consolidated and Separate Financial Statements*, as issued in 2003, was substantially revised in 2008. Those revisions apply prospectively. The requirements of IAS 27 (revised in 2008) have been carried forward into IFRS 10. For the same reasons as those described in BC196A–BC196B relating to IFRS 3, if control was obtained before the effective date of IAS 27 (2008), the Board also decided to allow entities to use either IAS 27 (2008) or IAS 27 (2003) in applying the transition requirements.

Paragraphs BC197–BC198 are amended. New text is underlined and deleted text is struck through.

BC197 ~~However, In addition,~~ the Board acknowledged that retrospective application of IFRS 10 may not be practicable in some circumstances. If an investor on initial application of IFRS 10 consolidates an investee it previously did not consolidate and it is impracticable to apply the provisions of IFRS 10 retrospectively, the reporting entity would apply the acquisition method in IFRS 3 with the acquisition date being the beginning of the earliest period for which application of those requirements is practicable (goodwill would not be recognised for an investee that is not a business).

BC198 If an investor on initial application of IFRS 10 ceases to consolidate an investee that was previously consolidated, the investor measures its retained interest in the investee on the date of initial application, at the amount at which the interest would have been measured if the requirements of IFRS 10 had been effective when the investor first became involved with ~~(but did not obtain control in accordance with this IFRS)~~, or lost control of, the investee. If, in accordance with IFRS 10, the investor never obtained control, then it would eliminate the previous consolidation from the date that it first became involved with the investee and account for that interest in accordance with other IFRSs as applicable. Alternatively, the investor may have obtained control in accordance with both IAS 27 and IFRS 10, but then later lost control in accordance with IFRS 10 but not IAS 27. In this case, the investor would cease to consolidate from the date control was lost as defined by IFRS 10. If measurement of the retained interest at the date the investor first became involved with (but did not obtain control in accordance with this IFRS), or lost control of, the investee is impracticable, the investor would apply the requirements in IFRS 10 for accounting for a loss of control at the beginning of the earliest period for which application of those requirements is practicable. The earliest period may be the current period.

After paragraph BC199, paragraphs BC199A–BC199E are added.

BC199A The Board identified a need to clarify the transition guidance that was intended to achieve limited retrospective application of IFRS 10. The Board noted that the main intention when issuing IFRS 10 was to ensure consistent accounting for transactions when IFRS 10 was applied for the first time (ie 1 January 2013 for a calendar-year entity, assuming no early application). In other words, the intention was to use the date of initial application as the point at which to determine the interests that should be accounted for in accordance with IFRS 10. The Board also noted that the intention was to provide transition relief if the consolidation conclusion would be the same whether applying IAS 27/SIC-12 or IFRS 10 at the date that IFRS 10 was applied for the first time. The Board concluded that, in those situations, the incremental benefit to users of applying IFRS 10 retrospectively would not outweigh the costs.

BC199B Consequently, the Board confirmed that the ‘date of initial application’ means the beginning of the annual reporting period for which IFRS 10 is applied for the first time. The Board amended the transition guidance to confirm 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 whether applying IAS 27/SIC-12 or IFRS 10. In making this clarification, the Board confirmed that the transition relief in paragraph C3(b) would also apply to interests in investees that were disposed of before the date of initial application of IFRS 10, (ie 1 January 2013 for a calendar-year entity, assuming no early application).

BC199C In clarifying how an entity should retrospectively adjust its comparative information on initial application of IFRS 10, the Board acknowledged that presenting all adjusted comparatives would be burdensome for preparers in jurisdictions where several years of comparatives are required. Without changing the requirement to apply the recognition and measurement requirements of IFRS 10 retrospectively, the Board decided to limit the requirement to present adjusted comparatives to the annual period immediately preceding the date of initial application. This is consistent with the minimum comparative disclosure requirements contained in IAS 1 *Presentation of Financial Statements* as amended by *Annual Improvements to IFRSs 2009–2011 Cycle* (issued May 2012). Those amendments confirmed that when an entity applies a changed accounting policy retrospectively, it shall present, as a minimum, three statements of financial position (ie 1 January 2012, 31 December 2012 and 31 December 2013 for a calendar-year entity, assuming no early application of this IFRS)

and two of each of the other statements (IAS 1 paragraphs 40A–40B). Notwithstanding this requirement, the Board confirmed that an entity is not prohibited from presenting adjusted comparative information for earlier periods. The Board noted that if all comparative periods are not adjusted then entities should be required to state that fact, clearly identify the information that has not been adjusted, and explain the basis on which it has been prepared.

BC199D The Board also considered the disclosure requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. On the initial application of an IFRS, paragraph 28(f) of IAS 8 requires an entity to disclose, for the current period and for each prior period presented, the amount of any adjustment for each financial statement line item affected. Changes in the consolidation conclusion on transition to IFRS 10 are likely to affect many line items throughout the financial statements. The Board agreed that this requirement would be burdensome for preparers and so agreed to limit the disclosure of the quantitative impact of any changes in the consolidation conclusion to only the annual period immediately preceding the date of initial application. An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

BC199E The Board considered whether IFRS 1 *First-time Adoption of Financial Reporting Standards* should be amended to allow first-time adopters to use the transition guidance of IFRS 10. It was noted that some respondents to the exposure draft had commented that, particularly when an investee is disposed of or control is lost during the comparative period, the cost of providing temporary consolidation information is not justified. The Board noted that this raised broader issues with the application of IFRS 1 and, rather than address this issue in the context of clarifying IFRS 10 transition relief, it would be more appropriately addressed in the context of IFRS 1 itself.

Amendments to the Basis for Conclusions on IFRS 11 *Joint Arrangements*

After paragraph BC69, paragraphs BC69A–BC69B are added.

- BC69A** In June 2012, the Board amended the transition guidance in Appendix C to IFRS 10 *Consolidated Financial Statements*. When making those amendments, the Board decided to limit the requirement to present adjusted comparatives to the annual period immediately preceding the date of initial application of IFRS 10. This is consistent with the minimum comparative disclosure requirements contained in IAS 1 *Presentation of Financial Statements* as amended by *Annual Improvements to IFRSs 2009–2011 Cycle* (issued May 2012). Those amendments confirmed that when an entity applies a changed accounting policy retrospectively, it shall present, as a minimum, three statements of financial position (ie 1 January 2012, 31 December 2012 and 31 December 2013 for a calendar-year entity, assuming no early application of this IFRS) and two of each of the other statements (IAS 1 paragraphs 40A–40B). Notwithstanding this requirement, the Board confirmed that an entity is not prohibited from presenting adjusted comparative information for earlier periods. The Board also decided to make similar amendments to the transition guidance in Appendix C to this IFRS and Appendix C to IFRS 12 *Disclosure of Interests in Other Entities* to be consistent with this decision. The Board noted that if all comparative periods are not adjusted then entities should be required to state that fact, clearly identify the information that has not been adjusted, and explain the basis on which it has been prepared.
- BC69B** The Board also considered the disclosure requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. On the initial application of an IFRS, paragraph 28(f) of IAS 8 requires an entity to disclose, for the current period and for each prior period presented, the amount of any adjustment for each financial statement line item affected. Changes in the accounting for a joint arrangement on transition to IFRS 11 are likely to affect many line items throughout the financial statements. The Board agreed that this requirement would be burdensome for preparers and so agreed to limit the disclosure of the quantitative impact of any changes in the accounting for a joint arrangement to only the annual period immediately preceding the first annual period for which IFRS 11 is applied. An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

Consequential amendment to the Basis for Conclusions on IFRS 1

Paragraph BC63M is added.

BC63M *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to IFRS 10, IFRS 11 and IFRS 12), issued in June 2012, amended IFRS 11 to require the transition adjustments of that IFRS to be recognised at the beginning of the annual period immediately preceding the first annual period for which IFRS 11 is applied (the ‘immediately preceding period’) instead of the beginning of the earliest period presented. The Board agreed that IFRS 1 should not be amended to reflect those amendments because the adjustments required on transition to IFRS should be reflected at the date of transition, which may be earlier than the beginning of the immediately preceding period. Consequently, paragraph D31 was amended to clarify that, when a first-time adopter is applying the transition guidance of IFRS 11, they shall apply the requirements at the date of transition, which is the same as the beginning of the earliest IFRS period presented.

Amendments to the Basis for Conclusions on IFRS 12 *Disclosure of Interests in Other Entities*

After paragraph BC119, paragraphs BC119A–BC119B are added.

BC119A In June 2012, the Board amended the transition guidance in Appendix C to IFRS 10 *Consolidated Financial Statements*. When making those amendments, the Board decided to limit the requirement to present adjusted comparatives to the annual period immediately preceding the date of initial application of IFRS 10. This is consistent with the minimum comparative disclosure requirements contained in IAS 1 *Presentation of Financial Statements* as amended by *Annual Improvements to IFRSs 2009–2011 Cycle* (issued May 2012). Those amendments confirmed that when an entity applies a changed accounting policy retrospectively, it shall present, as a minimum, three statements of financial position (ie 1 January 2012, 31 December 2012 and 31 December 2013 for a calendar-year entity, assuming no early application of this IFRS) and two of each of the other statements (IAS 1 paragraphs 40A–40B). The Board also decided to make similar amendments to the transition guidance in Appendix C to IFRS 11 *Joint Arrangements* and Appendix C to this IFRS to be consistent with this decision.

BC119B IFRS 12 introduces new disclosures relating to unconsolidated structured entities. Feedback from interested parties informed the Board that the changes to their accounting and reporting systems that are needed to capture this information were more onerous than originally envisaged, particularly in respect of comparative periods prior to the effective date of IFRS 12. Consequently, the Board decided to provide additional transition relief by eliminating the requirement to present comparatives for this information for periods beginning before the first year that IFRS 12 is applied.