



Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001
Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
www.ey.com/au

The Chairman
Australian Accounting Standards Board
PO BOX 204
Collins Street
West Victoria 8007

3 April 2012

Dear Mr Stevenson

Ernst & Young's global submissions to the IASB on the Exposure Drafts - Revenue from Contracts with Customers and Transition Guidance, Proposed amendments to IFRS 10 (ED/2011/7)

Please find enclosed the following Ernst & Young's global submissions to the IASB :

1. Exposure Draft - Revenue from Contracts with Customers (as referred to in our letter to you dated 13 February 2012)
2. (ED/2011/7) Exposure Draft - Transition Guidance, Proposed amendments to IFRS 10

Yours sincerely

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

Encl:

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

21 March 2012

Dear IASB members

Invitation to comment - Exposure Draft ED/2011/7 Transition Guidance, Proposed amendments to IFRS 10

The Global organisation of Ernst & Young is pleased to submit our comments on the above Exposure Draft (ED).

Overall we support the Board's proposal to clarify the transition requirements, and the relief provided, for the initial application of IFRS 10. We do have a number of comments and concerns on the proposals of the ED. These are discussed more fully in the appendices to this letter.

In summary, our key areas of concern are:

Date of initial application

We are concerned that the ED, as currently drafted, may introduce still further confusion into the transition requirements of IFRS 10. We also note that the proposed definition of the term 'date of initial application' is inconsistent with how it is used elsewhere in IFRSs, namely in IFRS 9 *Financial Instruments*. In Appendix A, we suggest amendments to the proposed definition of "date of initial application" and the role that this should play in the transition to IFRS 10.

Accordingly, we also recommend that the term "date of initial application" is included in the Glossary of Terms to enhance the consistency of this term in existing and future IFRS.

Items requiring further clarification

We also raise certain practical issues in Appendix B that we consider to be important for the Board to address. These include the additional clarification of:

- The choice of version of IFRS 3 when considering retrospective application of IFRS 10,
- The consolidation of investees that are not a business, as defined, and
- The application of Appendix C of IFRS 12.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas +31 88 4075035 or Luci Wright +44 207 951 0043.

Yours faithfully

Ernst & Young

Appendix A: Answers to the specific questions

Question 1:

The Board proposes to clarify the 'date of initial application' in IFRS 10. The date of initial application for IFRS 10 would be 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The Board also proposes to make editorial amendments to paragraphs C4 and C5 of IFRS 10 to clarify how an investor shall adjust comparative period(s) retrospectively if the consolidation conclusion reached at the date of initial application is different under IAS 27/SIC-12 and IFRS 10.

Do you agree with the amendments proposed? Why or why not? If not, what alternative do you propose?

We support the Board's intention to clarify the transition provisions of IFRS 10, in particular the meaning of the 'date of initial application'.

It is our understanding that the purpose of the amendment (per BC3 and BC4) is to clarify that the date of initial application is intended to be the point in time at which the control assessment is to be made when transitioning to IFRS 10. If the assessment of control per IFRS 10 gives a different conclusion to that under IAS 27, retrospective application of IFRS 10 is then required - subject to the impracticability relief.

We do not believe paragraph C2A, as it is drafted, provides clarification of that date as expressed above. We also do not believe that the amendments to paragraphs C4 and C5 clearly indicate that it is only necessary to assess whether or not control exists as at that date. Furthermore, we do not believe it is consistent with how that term is used elsewhere in IFRS - namely in IFRS 9.

Paragraph 7.2.1 and 7.2.2 of IFRS 9 states:

"An entity shall apply this IFRS retrospectively, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors... This IFRS shall not be applied to items that have already been derecognised at the date of initial application."

"For the purposes of the transition provisions in paragraphs 7.2.1 and 7.2.3-7.2.16, the date of initial application is the date when an entity first applies the requirements of this IFRS. The date of initial application may be:

- (a) ...
- (b) *the beginning of the first reporting period in which the entity adopts this IFRS, for entities initially applying this IFRS on or after 1 January 2011."*

We believe paragraph C2A should more clearly state that the date of initial application is relevant only for the determination of whether or not one entity controls another entity. We therefore recommend inserting an additional sentence in paragraph C2A, as follows:

“For the purposes of this IFRS, the date of initial application is the beginning of the first reporting period in which the entity adopts this IFRS. An entity assesses whether or not it has control of another entity at the date of initial application of this IFRS.”

We also recommend that paragraphs C4, C4A, C5 and C5A are further revised to remove the confusion as to the role of the ‘date of initial application’. These paragraphs refer to the date of initial application as the date to measure the assets, liabilities and the non-controlling interest and then to adjust the comparatives. Paragraph BC4(b) of IFRS 10 states that it is the intention for those entities, where the control decision is different between IAS 27 and IFRS 10, for there to be retrospective application as if the standard had always been applied. For that purpose, the ‘date of initial application’ is irrelevant.

We note that requiring that the retrospective adjustment be recognised as an adjustment to retained earnings may not be adequate for some transactions incurred by the entity that are recognised directly in equity, such as cash flow hedging transactions or foreign exchange differences. We therefore recommend that references to ‘retained earnings’ in paragraphs C4 (a) and (b), C4A, C5 and C5A be replaced with ‘retained earnings, other comprehensive income or directly in equity, as appropriate’.

We also note that some jurisdictions require more than one year of comparative information. The requirement to restate comparatives as proposed in paragraphs C4 and C5 of this ED can be a time consuming and complex exercise. Our experience with companies in the US, when Statement 167 was introduced has led us to conclude that the potential benefits of restating comparative amounts may not necessarily outweigh the costs. This is particularly relevant when 5 years of comparative information is required to be provided.

Therefore, an alternative option that the Board could consider is that on the ‘date of initial application’ an entity will make the control assessment and make the transition adjustments to retained earnings, other comprehensive income or directly to equity as appropriate. This effectively gives relief from the requirement to restate comparative financial information for all controlled entities. Further, the Board could also introduce a voluntary option allowing preparers to restate comparative amounts (similar to the approach adopted under US GAAP).

However, we note that this approach would also require that the Board address the interaction of the transition provisions of IFRS 10, with those of IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*.

Question 2:

The Board proposes to amend paragraph C3 of IFRS 10 to 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 under IAS 27/SIC-12 and IFRS 10. As a result, the Board confirms that relief from retrospective application of IFRS 10 would apply to an investor's interests in investees that were disposed of during a comparative period such that consolidation would not occur under either IAS 27/SIC-12 or IFRS 10 at the date of initial application.

Do you agree with the amendments proposed? Why or why not? If not, what alternative do you propose?

We agree with the proposed amendment. While we note that the relief provided in paragraph C3 will result in a loss of comparability of information between periods for some entities, we believe that the benefits of this relief will outweigh the cost that would have been incurred by affected entities.

We also recommend that the Board consider the impact on the application of the disclosures required by IFRS 12, and to clarify if the relief provided in IFRS 10 results in consequential relief from the disclosure requirements in IFRS 12.

Appendix B: Other transition issues

Given that the Board is proposing clarification to the transition requirements, we have identified three other points that we believe the Board should consider at the same time:

Choice of the version of IFRS 3 when considering retrospective application of IFRS 10

Questions have arisen as to which version of IFRS 3 should be applied when applying the requirement of IFRS 10 retrospectively. Should it be the IFRS 3 (2008) *Business Combinations* that is effective at the date that IFRS 10 is adopted, or depending on the date of acquisition, should it be IFRS 3 (2004) *Business Combinations* or possibly even IAS 22 *Business Combinations*?

We believe that this could be a quick and easy clarification for the Board to make without delaying the issue of the final amendments.

Consolidation of subsidiaries that are not businesses as defined in IFRS 3

Paragraphs C4 and C4A require the application of the acquisition method as described in IFRS 3 to investees that do not constitute a business (as defined in IFRS 3). If assets and liabilities (apart from goodwill) are to be recognised and measured at fair value, it is not clear what should be applied as the purchase consideration. Further, no guidance is provided as to the appropriate treatment of any difference that there may be between the purchase consideration and the fair value of the net assets recognised.

We recommend that additional guidance be incorporated into the standard to clarify how to account for investees which are not businesses as defined.

Application of Appendix C of IFRS 12

The Board should consider clarifying the requirements of paragraph C2 of IFRS 12. A number of questions have arisen as to whether this paragraph may be interpreted as relief from making the necessary disclosures required by the standard in the comparative period.