Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

17 April 2012

Dear Kevin

Re: ED 224 *Transition Guidance (proposed amendments to AASB 10)*

I am enclosing a copy of the PwC response to the International Accounting Standards Board's Exposure Draft ED/2011/7 *Transition Guidance (Proposed amendments to IFRS 10)* [AASB ED 224].

The letter reflects the views of the PwC network of firms and as such includes our own comments on the matters raised in the exposure draft.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (02) 8266 7104 if you would like to discuss our comments further.

Yours sincerely,

Paul Shepherd
Partner, PricewaterhouseCoopers

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Private & Confidential
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

8th March 2012

Dear Sir/Madam

Transition Guidance – Proposed amendments to IFRS 10

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the IASB's exposure draft *Transition Guidance – Proposed amendments to IFRS 10* ('the exposure draft').

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of the member firms that commented on the exposure draft.

'PricewaterhouseCoopers' refers to a network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We welcome the relief provided in the exposure draft with regards to the transition guidance in IFRS 10. However, we believe that the effect of the Board's proposals is to provide this relief in a complicated manner. We have previously recommended, in our comment letter to the Board's exposure draft on the mandatory effective date of IFRS 9, that the Board defer the effective dates for IFRS 10, 11, and 12. We believe this would have been a simpler and more transparent solution. If the effective date is deferred to 2014, adopters should have sufficient time to implement IFRS 10 from the beginning of the comparative period with no requirement for potentially complex transition solutions. We have outlined the advantages of this approach in the appendix.

However, we are aware that the Board deliberated the issue of deferment on 26 January 2012 and decided against it for various reasons. In light of the Board's decision not to defer the effective date of IFRS 10, we support this proposal to provide the transition relief.

We also believe that the exposure draft should not require differences between previously-recognised amounts and revised amounts based on IFRS 10 to be adjusted to retained earnings only. We recommend that reporting entities should be allowed to adjust these differences to another category of equity if this is appropriate, consistent with the transition language in IFRS 1 paragraph 11.

Attached to this letter is an Appendix that contains our responses to the Invitation to comment. If you have any questions please contact John Hitchins – PwC Global Chief Accountant (+44 20 7804 2497) or Jessica Taurae (+44 20 7212 5700).

Yours faithfully

PricewaterhouseCoopers

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Appendix

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?

Date of initial application

As noted in our response to Question 2 below, we believe using the notion of a 'date of initial application' is complex and prefer a simpler solution of pushing the effective date back to 1 January 2014. However, in light of the Board's decision not to defer the effective date of IFRS 10, we support this proposal to provide transition relief, including the clarification of the definition of "date of initial application" in paragraph C2A of the exposure draft.

Retrospective application of IFRS 3

Paragraphs C4 and C4A in the exposure draft explain situations in which IFRS 3 would need to be applied retrospectively, or at the beginning of the earliest period practicable. However, it is not clear whether reporting entities should apply IFRS 3 as revised in 2008, or earlier versions, for investees where IFRS 10 would require consolidation at a date prior to 1 July 2009.

We note that the transition provisions of IFRS 3 (revised 2008) exempted business combinations prior to 1 July 2009 from its requirements. As such, if an investor had hypothetically been applying IFRS 10 at that earlier acquisition date (prior to 1 July 2009), it would have applied the earlier version of IFRS 3 upon acquisition, and would not have made restatements when it did a transition to IFRS 3 (revised 2008).

We recommend that the transition proposals require the latest version of IFRS 3 to be used for transition purposes regardless of acquisition date. This allows adopters to avoid having to consider multiple sets of acquisition rules, depending on acquisition date, upon IFRS 10 transition. This is also consistent with the objective of the exposure draft to provide relief from full retrospective application.

Retrospective application of IFRS 10 paragraphs 23, 25, B94 and B96-B99

It is also unclear as to how a parent company should apply the above paragraphs to a subsidiary that was not consolidated under IAS 27/SIC 12, but will be consolidated under IFRS 10 from periods prior to 1 July 2009 to the IFRS 10 adoption date.

IFRS 10 paragraph C6 indicates that these paragraphs will not apply before the parent first applied the corresponding requirement in IAS 27 (revised 2008). However, does this require the above parent company to apply the previous version of IAS 27 (revised 2003) to its previously-unconsolidated subsidiary for periods prior to 1 July 2009?

We note that a requirement to apply IAS 27 (revised 2003) for periods prior to 1 July 2009 will lead to an increase in transition efforts and less meaningful results. For example, certain losses that will turn non-controlling interests into deficit balances need to be allocated to parent equity for periods prior to 1 July 2009, but to non-controlling interests thereafter.

We recommend that in such a situation, the parent company should be allowed to apply the above paragraphs for all consolidated periods.

Adjustments to retained earnings at the beginning of the comparative period

Paragraphs C4 to C5A of the exposure draft requires adjustment of retained earnings for differences between previously-recognised amounts and those revised amounts to be recognised under IFRS 10. We are concerned that such a requirement could potentially conflict with requirements in local legislation regarding classification of reserves.

Further, the requirement may conflict with other standards. For example, IAS 16 paragraph 39 requires fair value adjustments on property, plant and equipment to be adjusted to revaluation surplus. Similarly IAS 39 paragraph 96 requires fair value changes on hedging instruments used in a cash flow hedge reserve to be adjusted to a separate component of equity (e.g. hedging reserve). Where it is clear that some (or all) of the differences in paragraphs C4 to C5A arise from such events, adjusting retained earnings alone does not reflect the underlying nature of these equity changes. For example, consider a business that was not consolidated under IAS 27 but would have been consolidated under IFRS 10, that did not earn significant profits since its acquisition date, but recorded large, unrealised increases in the fair value of property, plant and equipment. If such a business had been consolidated all along, most of the equity increases would have been taken to revaluation surplus rather than retained earnings.

We recommend that paragraphs C4 to C5A should be amended, consistently with the language in IFRS 1 paragraph 11, to require those differences discussed above to be adjusted to "*retained earnings (or, if appropriate, another category of equity)*".

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 believe that the transition guidance in paragraph C3 of the exposure draft will provide relief to reporting entities that adopt IFRS 10. We believe that such relief is essential, and we welcome the Board's proposals.

However, we believe that the effect of the Board's proposals is to provide this relief in a complicated and less transparent manner for financial statement users than would be the case under our preferred approach. We have previously recommended, in our comment letter to the Board's exposure draft on the mandatory effective date of IFRS 9, that the Board defer the effective dates for IFRS 10, 11, and 12. We believe this would have been a simpler and more transparent solution. If the effective date is deferred to 2014, adopters should have sufficient time to implement IFRS 10 from the beginning of the comparative period with no requirement for potentially complex transition solutions. We believe that this approach has the following advantages:

- As the investment entities guidance has not been finalised, the transition guidance for investment entities, and how that will interact with the Board's transition proposals in this exposure draft, remains uncertain. Deferral of the effective date, however, would provide investment entities with sufficient time to consider the inter-relationship between IFRS 10, the Board's transition proposals in this exposure draft, and the Investment Entities guidance when it is issued.

- The transition proposals in this exposure draft, by not requiring full retrospective application, may also result in less comparability between current period figures that are based on IFRS 10, and comparative figures that are based on IAS 27/SIC 12. Our recommended approach, however, would result in IFRS 10 being applied consistently, upon adoption in 2014, in both the reported (2014) and comparative periods (2013).
- Finally, paragraph C3 indicates that previous accounting is not required to be adjusted if those conditions are met, but does not prohibit such adjustments. This may also lead to less comparability between the financial statements of reporting entities who use the C3 exemption, and those who do not. Using our recommended approach, reporting entities would be required to implement IFRS 10 consistently from the start of the comparative period, thereby resolving this issue.

However, we are aware that the Board deliberated the issue of deferment on 26 January 2012 and decided against it for various reasons. In light of the Board's decision not to defer the effective date of IFRS 10, we support this proposal to provide transition relief.