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IFRS Global office
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IFRS in Focus

IASB issues exposure draft clarifying the transitional requirements of IFRS 10

Contents

The proposals

Effective date and comment period

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www.iasplus.com

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The Bottom Line

- The proposals would define the 'date of initial application' as the beginning of the annual reporting period in which IFRS 10 is applied for the first time and would clarify that:
  - an entity should assess whether the consolidation conclusion is different under IAS 27/SIC-12 and IFRS 10 on the date of initial application of IFRS 10; and
  - if the consolidation conclusion reached at the date of initial application is different under IAS 27/SIC-12 and IFRS 10, an investor is required to adjust retrospectively its comparative periods as if the requirements of IFRS 10 had always been applied, with any adjustments recognised in opening retained earnings (if practicable).
- The proposals would clarify how an investor should 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.
- The proposals would be effective for the period in which IFRS 10 is applied for the first time.
- Comments on the proposals are due by 21 March 2012.

The proposals

In December 2011, the International Accounting Standards Board ('IASB' or the 'Board') published an exposure draft ED/2011/7 *Transition Guidance (Proposed Amendments to IFRS 10)* ('the ED') that clarifies the transitional guidance in IFRS 10 *Consolidated Financial Statements*. The proposals are in response to constituent requests for clarification on certain aspects of the transition guidance in IFRS 10.

Date of initial application

The ED proposes to explain that the 'date of initial application' in IFRS 10 means 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'.

For example, assume a calendar year-end entity applies IFRS 10 for the first time in its annual financial statements ending 31 December 2013 and presents a one year comparative period. The date of initial application would be 1 January 2013.

An entity would not be 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 *Consolidated and Separate Financial Statements*/SIC-12 *Consolidation – Special Purpose Entities* and IFRS 10.

Observation

The proposals would provide relief from making adjustments in respect of interests in investees that were disposed of before the date of initial application of IFRS 10 as the consolidation conclusion following disposal would be not to consolidate, irrespective of whether the investee would have been consolidated prior to disposal under the requirements of IFRS 10.

Different consolidation conclusion reached

The ED would amend IFRS 10 to clarify how an investor should 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.

If, at the date of initial application, an entity concludes that it should consolidate an investee that was not previously consolidated, the assets, liabilities and non-controlling interests would be measured at the date of initial application and comparative periods would be adjusted retrospectively as if the investee had been consolidated from the date on which control (as defined in IFRS 10) was obtained and IFRS 3 *Business Combinations* applied at that date. Any difference between the amount of assets, liabilities and non-controlling interests recognised and the previous carrying amount of the entity's involvement in the investee would be recognised as an adjustment to retained earnings at the beginning of the earliest comparative period presented or, if later, on the date when control was obtained.

Conversely, if, at the date of initial application, an investor concludes that it should no longer consolidate an investee that was previously consolidated, the retained interest would be measured at the date of initial application at the amount at which it would have been measured if the requirements of IFRS 10 had been effective when the investor became involved with, or lost control of, the investee. Comparative periods would be adjusted retrospectively with any difference between the previous amount of assets, liabilities and non-controlling interests recognised and the carrying amount of the investor's retained interest in the investee recognised as an adjustment to retained earnings at the beginning of the earliest comparative period presented or, if later, on the date when the investor became involved with, or lost control of, the investee.

For investees that are consolidated under IFRS 10 but were not previously, or cease to be consolidated on adoption of IFRS 10, if retrospective adjustment is not practicable as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, a deemed disposal or acquisition would be accounted for at the beginning of the earliest period for which this is practicable, with any resulting adjustment to retained earnings made at that date.

Effective date and comment period

Comments on the ED are due by 21 March 2012. The proposals would be effective for the period in which IFRS 10 is applied for the first time (i.e., annual periods beginning on or after 1 January 2013 unless applied early).

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