Project **Consolidation and Joint Arrangements**

Topic **Effective date and transition**

Introduction

1. This paper discusses the effective date and transition requirements for IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Involvement with Other Entities* and IAS 28 *Investments in Associates and Joint Ventures* (revised in 2011), and IAS 27 *Separate Financial Statements* (revised in 2011) [hereafter referred to as 'the five IFRSs'].

2. This paper asks the Board to make the following decisions:

   (a) the effective date of the five IFRSs;

   (b) whether there should be a provision for early application; and

   (c) to confirm the transition requirements of the five IFRSs.

3. This paper includes a preliminary assessment of the comments received on the Request for Views *Effective Date and Transition Methods* with respect to the IFRSs on consolidations and joint arrangements. Comments on that document were due by 31 January 2011.

Summary of previous tentative Board decisions

4. The Board has tentatively decided that the effective date of all five IFRSs should be the same, and that date should not be earlier than 1 January 2013. With respect to the transition method, the Board tentatively decided to require limited retrospective application for both IFRS 10 and IFRS 11.

5. At its December 2010 meeting, the Board decided to defer setting an effective date and to defer its discussions with respect to early application of the five IFRSs. It did so in order to take account of the broader feedback from the consultation on the *Request for Views on Effective Dates and Transition Methods* [the RFV] that, in December, was still open for comment. We emphasise that the consolidations, joint arrangements and the related disclosure standard were identified in the RFV as being of peripheral interest. They were not included in the list of projects for which the Board was seeking input on how to set the effective date.

Comments received

6. The RFV asked for input on the implementation of several new IFRSs that are expected to be issued during 2011, including views on the implementation costs, approach and timetable (effective dates and early application) as well as considerations for first-time adopters. The deadline for comments on the RFV was 31 January 2011.

7. As of the date of writing this paper, over 130 comment letters had been received in response to the RFV. The staff have analysed the comments received to the RFV only in the context of the five IFRSs; the Board will discuss comments received on the RFV in its entirety in March 2011.

Cost of implementation

8. As stated in paragraph 6, the RFV asked respondents to comment on the costs expected to be incurred in adapting to the new IFRSs.

9. There were relatively few specific comments on the consolidation or joint arrangements standards regarding the cost of implementation. Although many respondents identified projects such as leases, financial instruments, revenue recognition and insurance contracts as high-impact, costly projects that would take a lot of time and resources to implement, consolidation and joint

arrangements were frequently either identified as low-impact projects or not mentioned at all.

10. However, some respondents from the energy, asset management and financial services industries identified consolidation and joint arrangements as high-impact projects or projects that would be very costly or lengthy to implement given the volume, complexity and diversity of transactions to be assessed. Costs stated mainly included first time implementation costs such as increases in staff costs (e.g. personnel training, impact assessment, policy development), IT costs (e.g. internal control system upgrades with respect to new disclosures) and audit costs (e.g. due to the judgements involved in applying IFRS 10 and IFRS 11 as well as its (limited) retrospective application requirements). These respondents also discussed more general concerns such as the possible regulatory implications that would result from implementation of the new standards.

Effective date

11. The RFV suggested two approaches to setting the effective date of the new IFRSs. These approaches are:

    (a) A single date approach – all the new IFRSs would become effective at the same date, following an appropriate implementation period.

    (b) A sequential approach – each new IFRS, or an appropriate group of new IFRSs, would become effective at different dates spanning a number of years.

12. Several respondents preferred the sequential approach but the majority of the respondents preferred a 'single date' approach.

13. The majority of the respondents that preferred a single date approach suggested that the effective date should be 1 January 2015 or later because it would give preparers sufficient time to understand the new requirements and to adjust their internal reporting systems, where required. This approach would also avoid multiple restatements to amounts reported in financial statements that could happen when applying the 'sequential' approach (ie comparative information

presented could change each time that a new standard was applied for the first time).

14. The respondents that preferred a 'sequential' approach suggested earlier effective dates, i.e. 1 January 2013 or 1 January 2014. They supported a period from publication to effective date of about 1 or 2 years for the new standards with a low or medium effect on the preparation of financial statements and a minimum period of 3 years for the projects with highest impact (generally financial instruments, insurance contracts, leases and revenue recognition).

15. The respondents supporting the sequential approach considered the five IFRSs to be less complex to understand and apply compared to the other new IFRSs. and, in their view, could be applied in isolation of the other new IFRSs to be published. Some respondents argued that the five IFRSs should be effective before any of the other new IFRSs expected to be issued in 2011 since they determine the 'reporting entity' and 'it is beneficial to determine the consolidated group before applying other standards'.[1]

16. Nearly all respondents that preferred the 'sequential' approach and specifically commented on whether the five IFRSs should be linked agreed with the Board's tentative decision to require application as a package with the same effective date for the five IFRSs. Respondents stated that the five IFRSs should be applied together because of the high level of interaction between the IFRSs and argued that there would not be comparability if all five IFRSs were not adopted at the same time.

17. A few respondents explicitly stated that the five IFRSs should be linked to one or more of the other new IFRSs. However, there was no consistency in the suggestions as to which other IFRSs should be linked to consolidation and joint arrangements.

[1] See Comment Letter Number 124.

Early application

18. The majority of respondents support a provision that allows early application for the IFRSs to be issued this year. Respondents stated that early application would give entities the flexibility to implement the new standards in the most efficient and effective manner. Few respondents commented on early application specifically in the context of consolidations; some respondents, however, did state that early application of one of the five IFRSs should only be permitted if all five IFRSs are applied early as a package.

19. Respondents also stressed that early application was especially important in the context of first-time adopters so that they would not have to prepare financial statements under two different versions of IFRS in two or three subsequent years. Respondents felt that early application would give first-time adopters the most flexibility in finding an effective and efficient way to apply IFRSs.

Transition method

20. The majority of the respondents agreed with limited retrospective application for consolidation and joint arrangements in accordance with IAS 8. A few respondents suggested prospective application of the new requirements. Some other respondents requested that entities should not be required to restate comparative information because it could involve significant cost and cannot be estimated reliably. However, we note that IAS 8 already relieves entities from restating comparative information when it is impracticable to determine the cumulative effect of applying a new accounting policy to all prior periods.[2]

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[2] In such a case IAS 8, paras 25 and 27 require the entity to apply the new accounting policy prospectively from the start of the earliest period practicable and to disregard the portion of the cumulative adjustment to assets, liabilities and equity arising before that date.

Staff recommendation

Effective date

21. The majority of respondents supported the 'single date' approach with an effective date of 1 January 2015 or later. However, relatively few respondents specifically requested that the *consolidation* or *joint arrangements* standards be linked with the other new IFRSs to be issued in 2011. In addition, the five IFRSs determine the boundaries of the reporting entity. It would be difficult, if not impossible, to understand the transactions to which the other IFRSs should be applied without first knowing which entities are within the group. Furthermore, the Board had accelerated the consolidation project to respond to urgent requests from users of financial statements, regulators and others (such as the G20 leaders and the Financial Stability Board) to improve the accounting and disclosure requirements for structured entities, particularly securitisation vehicles and asset-backed financings.

22. Having given priority to the project, the Board then held back finalising the consolidations IFRS (and, as a consequence, the joint arrangements IFRS) to give the FASB the opportunity to catch up with the IASB thereby improving the chances of harmonising the consolidations requirements. If the IASB had not provided this opportunity to the FASB, IFRSs 10, 11 and 12 would have been finalised in mid 2010 and the Board would probably not even be debating the effective dates in conjunction with other projects. For these reasons, we recommend setting an effective date of 1 January 2013 for the five IFRS.

23. We note that the high costs mentioned by some respondents regarding particular industries are first time implementation costs. We also recognise that preparers, regulators, auditors and users of financial statements need adequate time to consider and implement the five IFRSs and discuss the impact on regulatory or other requirements. We believe that an effective date of 1 January 2013, which is nearly two years after the date of publication (expected in Q1 2011) should

provide suff2cient lead time to adequately consider the new requirements and to accumulate all data required to apply the five IFRSs.[3]

24. We also recommend permitting early application of the five IFRSs and requiring entities that apply these IFRSs early to disclose that fact. The five IFRSs will improve the accounting and, in particular, the disclosures provided by a reporting entity in relation to its involvement with subsidiaries, joint arrangements, associates and unconsolidated structured entities. Accordingly, we do not believe that entities should be prevented from applying the five IFRSs early if they choose to do so. In addition, we agree with respondents' views that early application will address some of the adoption issues faced by first-time adopters of IFRS.

25. Because of the significant interaction between the five IFRSs and in order to improve comparability among entities, we also recommend that if an entity elects to apply the new requirements early, the entity must apply the requirements of all five IFRSs early as a package, with one exception. We believe that entities should not be prevented from applying any of the disclosure requirements in IFRS 12 early, without also having to apply all of the requirements in the other four IFRSs. Therefore we recommend making clear that an entity is permitted to apply any of the disclosure requirements in IFRS 12 before the effective date, in isolation.

Transition method

26. We continue to support the decisions taken by the Board regarding the transitional requirements of IFRS 10 *Consolidated Financial Statements* and

[3] By comparison, when in June 2009 the FASB issued FAS 167 *Consolidation of Variable Interest Entities* which significantly affected the financial service and asset management industry, the requirements became effective within the same year of publication.

IFRS 11 *Joint Arrangements.* The majority of the respondents agreed with the Board's tentative decisions for limited retrospective application.

Questions for the Board

Does the Board agree with the staff recommendation:

(a) to require an effective date of 1 January 2013 for all five IFRSs [IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011)]?

(b) to permit early application of the five IFRSs, but only if all five IFRSs are applied early as a package and if early application is disclosed? However, we would make clear that entities are permitted to apply any of the disclosure requirements in IFRS 12 before the effective date, in isolation, should they choose to do so.

(c) not to change the Board's previous tentative decisions regarding the transition requirements of IFRS 10 and IFRS 11?

If not, why and what does the Board propose?