



ED/2011/7
Transition Guidance
(Proposed amendments to IFRS 10)
and
EFRAG Draft Endorsement Advice
Consolidation Package

Peter Zimniok

Public Discussion

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Outline

1. Current status of the consolidation package
2. ED/2011/7 *Transition Guidance*
 1. *Proposed amendments*
 2. *IASB's Questions*
3. Draft Endorsement Advice Consolidation Package



1. Current status of the consolidation package

IASB

- Project was completed in May 2011 by publication of the standards
 - IFRS 10 *Consolidated Financial Statements*,
 - IFRS 11 *Joint Arrangements*,
 - IFRS 12 *Disclosure of Interests in Other Entities*and the amendments to
 - IAS 27 *Separate Financial Statements* and
 - IAS 28 *Investments in Associates and Joint Ventures*.
- Publication of ED/2011/7 *Transition Guidance (Proposed Amendments to IFRS 10)* on 20.12.2011
 - Comment periods: IASB – 21.03.2012; EFRAG DCL – 09.03.2012



2. ED/2011/7 Transition Guidance

2.1 Proposed amendments

- Clarification of the date of initial application:
 - Addition of IFRS 10.C2A: *‘For the purposes of this IFRS, the date of initial application is the beginning of the annual reporting period in which this IFRS is applied for the first time.’*
- Clarification of the retrospective application of IFRS 10:
 - IFRS 10.C3: At the date of initial application, an entity is not required to make adjustments to the previous accounting for its involvement with entities, if the consolidation conclusion reached is the same under IAS 27/SIC-12 and IFRS 10.
→ IASB confirms that in this cases relief from retrospective application also applies to an investor’s interests in investees that were disposed of during a comparative period



2. ED/2011/7 *Transition Guidance*

2.1 Proposed amendments

- IFRS 10.C4: If, at the date of initial application, an investor concludes that it shall consolidate an investee that was not consolidated in accordance with IAS 27 and SIC-12, the investor shall adjust the retained earnings of comparative periods retrospectively. The adjustment is the difference between the amount of assets, liabilities and non-controlling interests recognised and the previous carrying amount of the investor's involvement with the investee.
- IFRS 10.C4A: The investor shall adjust the retained earnings of comparative periods retrospectively unless measuring an investee's assets, liabilities and non-controlling interest is impracticable and unless the beginning of the earliest period for which measuring is practicable is the current period.



2. ED/2011/7 *Transition Guidance*

2.1 Proposed amendments

- IFRS 10.C5 : If, at the date of initial application, an investor concludes that it shall no longer consolidate an investee that was consolidated in accordance with IAS 27 and SIC-12, the investor shall adjust the retained earnings of comparative periods retrospectively. The adjustment is the 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.
- IFRS 10.C5A: The investor shall adjust comparative periods retrospectively unless measuring an investee's assets, liabilities and non-controlling interest is impracticable and unless the beginning of the earliest period for which measuring is practicable is the current period.



2. ED/2011/7 Transition Guidance

2.2 IASB's 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?



2. ED/2011/7 Transition Guidance

2.2 IASB's Questions

ASCG's tentative views on Question 1

- Agrees with the intention to clarify the date of initial application, but suggests a more precise wording:

'For the purposes of this IFRS, the date of initial application is the beginning of the first annual reporting period beginning on or after 01 January 201X. Earlier application is permitted.'

- More application guidance and simplifications regarding the amendments to paragraphs C4 und C5 are suggested, as are provided for IFRS 1:
 - If an entity has to be consolidated that was not consolidated in accordance with IAS 27 and SIC-12, the use of deemed cost should be allowed and the deemed acquisition date should be restricted to no earlier than the beginning of the first comparative period.



2. ED/2011/7 Transition Guidance

2.2 IASB's Questions

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?



2. ED/2011/7 *Transition Guidance*

2.2 IASB's Questions

ASCG's tentative views on Question 2

- Agrees with the proposed amendments to paragraph C3



3. Draft Endorsement Advice Consolidation Package

EFRAG

- Published Draft Endorsement Advice on 09.02.2012
 - Technical Assessment
 - Evaluation of the costs and benefits
 - Dissenting opinions (if any)
- Comment period ends 11.03.2012
- Endorsement Advice will probably include the recommendation that the mandatory effective date should be 01.01.2014



3. Draft Endorsement Advice Consolidation Package

Technical Assessment of the standards against the endorsement criteria

- Criteria:
 - Relevance
 - Reliability
 - Comparability
 - Understandability
 - True and fair view
 - European public good
- Technical criteria for EU endorsement are met
- EFRAG recommends endorsement



3. Draft Endorsement Advice Consolidation Package

Evaluation of the costs and benefits

- costs
 - General expectation of increased costs for preparers
 - Expectation of some significant one-off costs
 - In some cases expectation of decreasing costs for preparers (IAS 28)
 - benefits
 - Expectation of improvement due to consistent application
 - Expectation of increased comparability and improved reliability of financial reporting
- Assessment is that, on balance, the benefits that are expected to arise from the implementation will exceed the costs expected to be incurred



3. Draft Endorsement Advice Consolidation Package

Dissenting Opinions on IFRS 10

- Two EFRAG TEG-members dissent from the endorsement
- Main reasons:
 - Different definition of *potential voting rights* in IFRS 10 versus IAS 28
 - Definition of *agency relationships* in application guidance is too broad
 - Implementation is highly complex, higher amount of judgement is necessary which reduces comparability
 - Possible impact of ED *Investment Entities*, that is still under consideration



3. Draft Endorsement Advice Consolidation Package

Dissenting Opinions on IFRS 11

- Four EFRAG TEG-members dissent from the endorsement
- Main reasons:
 - Elimination of proportionate consolidation
 - Insufficient guidance for interests in a joint arrangement structured through a separate legal entity
 - Accounting for interests in joint operations structured through a separate vehicle in separate financial statements



3. Draft Endorsement Advice Consolidation Package

Possible deferral of mandatory effective date

- IASB January-Meeting: discussion of EFRAG´s request for deferral
- Decision: reaffirmed the effective date of 01.01.2013
- Main reasons:
 - The suite of standards has already been endorsed in a number of countries or is in the endorsement process.
 - Those countries have not voiced the same concerns as EFRAG to the IASB.
 - New requirements are a direct response to calls by the G20 countries and the FSB to reform this area of reporting. Therefore no further delay of these improvements intended.
- IASB staff will give priority to open issues relating to the scope of ED *Investment Entities* and whether a roll-up should be permitted.



Deutsches Rechnungslegungs Standards Committee e.V.
Accounting Standards Committee of Germany



Thank you!

Peter Zimniok

DRSC e.V.
Zimmerstr. 30
10969 Berlin

Tel. 030 20 64 12 19
Fax 030 20 64 12 15

www.drsc.de
zimniok@drsc.de