EFRAG

European Financial Reporting Advisory Group

The costs and benefits of implementing the *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to IFRS 10, IFRS 11 and IFRS 12)

Introduction

1 Following discussions between the various parties involved in the EU endorsement process, the European Commission decided in 2007 that more extensive information than hitherto needs to be gathered on the costs and benefits of all new or revised Standards and Interpretations as part of the endorsement process. It has further been agreed that EFRAG will gather that information in the case of the *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to IFRS 10, IFRS 11 and IFRS 12) ('the Amendments').

2 EFRAG first considered how extensive the work would need to be. For some Standards or Interpretations, it might be necessary to carry out some fairly extensive work in order to understand fully the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of the Amendments, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work. The results of the consultations that EFRAG has carried out seem to confirm this. Therefore, as explained more fully in the main sections of this report, the approach that EFRAG has adopted has been to carry out detailed initial assessments of the likely costs and benefits of implementing the Amendments in the EU, to consult on the results of those initial assessments, and to finalise those assessments in the light of the comments received.

EFRAG's endorsement advice

3 EFRAG also carries out a technical assessment of all new and revised Standards and Interpretations issued by the IASB against the so-called endorsement criteria and provides the results of those technical assessments to the European Commission in the form of recommendations as to whether or not the Standard or Interpretation assessed should be endorsed for use in the EU. As part of those technical assessments, EFRAG gives consideration to the costs and benefits that would arise from implementing the new or revised Standard or Interpretation in the EU. EFRAG has therefore taken the conclusion at the end of this report into account in finalising its endorsement advice.

A SUMMARY OF THE AMENDMENTS

What has changed?

4 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)* ('the Amendments'), clarify the following:

(a) *Date of initial application:* is the beginning of the annual reporting period in which IFRS 10 is applied for the first time.

(b) *Interests in investees that were disposed of during a comparative period under IFRS 10:* relief is provided from retrospective application of IFRS 10 if an investor's interests in investees, that were not consolidated under IAS 27/SIC-12 but would be consolidated under IFRS 10, were disposed of before the date of initial application of IFRS 10.

(c) *The version of IFRS 3 Business Combinations to use when applying IFRS 10:* If control was obtained *after* the effective date of IFRS 3 (2008), then IFRS 3 (2008) shall be used for the purposes of restating the comparatives. If control was obtained *before* the effective date of IFRS 3 (2008), an entity is allowed to apply either IFRS 3 (2008) or the previous version of IFRS 3 (issued in 2004) and the corresponding version of IAS 27/IFRS 10.

5 In addition, the amendments provide transition relief with the following two areas of transition in IFRS 10, IFRS 11 and IFRS 12, to address concerns expressed by some preparers that the transition requirements in IFRS 10, IFRS 11 and IFRS 12 would be more onerous than originally envisaged.

(d) eliminate the requirement to adjust comparatives that exceed the minimum requirements under IFRSs; and

(e) provide relief from comparative information under IFRS 12 in relation to unconsolidated structured entities.

Comparatives for entities that need to provide more than the immediately preceding period for IFRS 10, IFRS 11 and IFRS 12

<u>IFRS 10</u>

6 IFRS 10 requires an entity to apply IFRS 10 retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except as stated in paragraphs C2A-C6 of IFRS 10. Consequently, when an entity first applies IFRS 10, it is required to adjust all relevant prior period amounts (and disclosures) presented in its financial statements. This would require entities to disclose the amount of the adjustment or affected financial statement line items for the current period of change and for each prior period presented. The Amendments limit the quantitative information required by IAS 8 to the immediately preceding period, although an entity may present this information for the current period or for earlier comparative periods, but is not required to do so.

7 The Amendment also limits the requirement to present adjusted comparatives to only one comparative period – the immediately preceding period, which is consistent with the minimum comparative disclosure requirements contained in IAS 1 *Presentation of Financial Statements*.

8 However, an entity will be permitted to present or adjust comparatives for earlier periods. If the entity presents unadjusted comparative information for any earlier periods, the entity is required to identify the information that has not been adjusted, and explain the basis on which it has been prepared.

IFRS 11 and IFRS 12

9 IFRS 11 and IFRS 12 are also amended to include similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period.

Comparative information under IFRS 12 in relation to unconsolidated structured entities

10 The disclosure requirements in IFRS 12 for unconsolidated structured entities, is applied retrospectively. The amendment eliminates the requirement to present comparatives for the disclosures under IFRS 12 relating to unconsolidated structured entities, for any period before the first year for which IFRS 12 is applied (i.e. comparative disclosures are not required).

Consequential Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards

11 The Amendments amend IFRS 1 to clarify that, when a first-time adopter applies the guidance in IFRS 11, they should apply the requirements at the *date of transition*, which is the same as the beginning of the earliest IFRS period presented. Other requirements in IFRS 1 remain unaffected by the Amendments.

When does Transition Guidance, Amendments to IFRS 10, IFRS 11 and IFRS 12 become effective?

12 The Amendments become effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Early adopters would need to disclose that fact and apply IFRS 10, IFRS 11 and IFRS 12 at the same time.

EFRAG's initial analysis of the costs and benefits of the Amendments

13 EFRAG carried out an initial assessment of the costs and benefits expected to arise for preparers and for users from implementing the Amendments, both in year one and in subsequent years. The results of EFRAG's initial assessment can be summarised as follows:

(a) *Costs* – for preparers, the transition relief provided by the Amendments significantly would reduce the transitional cost of the preparers to apply IFRS 10, IFRS 11 and IFRS 12. For users, the Amendments would result in some one-off cost for users in the period in which the new standards are first applied. However, these costs are unlikely to be significant.

(b) *Benefits* – The benefits to be derived from implementing the Amendments in the EU are likely to outweigh the costs involved.

14 EFRAG published its initial assessment and supporting analysis on 17 July 2012. It invited comments on the material by 17 August 2012. In response, EFRAG received ten comment letters. Seven respondents agreed with EFRAG's assessment of the benefits of implementing the Amendments and the associated costs involved for users and preparers. Three respondents did not comment

specifically on EFRAG's initial assessment of the costs and benefits of implementing the Amendments in the EU, but supported EFRAG's recommendation that the Amendments be adopted for use in Europe.

EFRAG's final analysis of the costs and benefits of the Amendments

15 Based on its initial analysis and stakeholders' views on that analysis, EFRAG's detailed final analysis of the costs and benefits of the Amendments is presented in the paragraphs below.

Cost and benefits for preparers

16 EFRAG has carried out an assessment of the cost implications for preparers resulting from the Amendments of the transitional guidance.

Comparatives for entities that need to provide more than the immediately preceding period for IFRS 10, IFRS 11 and IFRS 12

17 This amendment limits the requirement for full retrospective application in IFRS 10, IFRS 11 and IFRS 12, by requiring only one comparative period when an entity adopts these standards. The amendment also limits requirement under paragraph 28(f) of IAS 8 to only the immediately preceding period.

18 In EFRAG's view, this amendment will significantly alleviate some of the operational burden for preparers that want to apply these standards as of 1 January 2013 and ensures the feasibility of doing so.

19 Furthermore, entities will not be required to provide the quantitative information required in paragraph 28(f) of IAS 8 regarding the impact of the change of adopting the new standard on the current period. This will further reduce the cost burden for the preparers affected.

Disclosure on IFRS 12 for unconsolidated structured entities

20 This amendment eliminates the requirement to present comparatives for the disclosures related to unconsolidated structured entities for any period before the first annual period for which IFRS 12 is applied.

21 EFRAG believes that the transition relief provided by this amendment will significantly reduce the transitional cost the preparers affected.

Costs and benefits for users

22 EFRAG has carried out an assessment of the cost implications for users resulting from the Amendments.

23 EFRAG notes that any impacts on costs and benefits from the Amendments will be one-off, as they specifically relate only to transition of IFRS 10, IFRS 11 and IFRS 12.

24 Users will incur costs to understand the new transition relief and modify their financial models accordingly. Similarly users will lose the quantitative information required by paragraph 28(f) of IAS 8 on the impact of the change of the new standards in the current period. In EFRAG's view, these costs are unlikely to be

significant, as entities will still be required to present one period of comparative information.

25 In relation to the disclosure for unconsolidated structured entities, EFRAG believes that presenting the required information for the current period, results in the presentation of useful and relevant information for users.

26 Overall, EFRAG's assessment is that the Amendments will result in some one-off cost for users in the period in which the new standards are first applied. However, these costs are unlikely to be significant.

Conclusion

27 EFRAG's assessment is that the overall the benefits to be derived from implementing the Amendments are likely to outweigh the costs involved.

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