Transition
Issues Paper

Introduction and Objective

1 The objective of this paper is to discuss the April IASB tentative decisions on transition when an entity applies the proposed amendments to IAS 32 *Financial Instruments: Presentation*, IFRS 7 *Financial Instruments: Disclosures* and IAS 1 *Presentation of Financial Statements* as part of the FICE project.

2 The table below reflects the April IASB's tentative decisions and the relevant IASB Staff analysis included in its Agenda Paper 5C.

Effective date

3 An effective date would be determined after the IASB's Exposure Draft to allow for more flexibility in finalising the proposed amendments. However, the IASB Staff recommended:

(a) that early application of the amendments is permitted; and

(b) if an entity applies these proposed amendments for an earlier period, it shall disclose that fact and apply all of the proposed amendments at the same time.

Topic	IASB's tentative decisions	IASB Staff analysis
The transition method	The IASB tentatively decided: (a) to require an entity to apply the proposed amendments retrospectively with the restatement of comparative information (that is, a fully retrospective approach).	The IASB Staff considered that retrospective application: (a) would maximise consistency of financial information between periods and also facilitate analysis and understanding of comparative information; (b) is consistent with the transition requirements of previous amendments to IAS 32 for example, the amendments for puttable financial instruments and obligations arising on liquidation and offsetting financial assets and financial liabilities; (c) would result in benefits greater than costs because: (i) the project is to make clarifying amendments to the underlying principles in IAS 32 rather than to fundamentally change any requirements; (ii) would help users of financial statements identify and assess changes and trends in the entity's liquidity and solvency; and (iii) most information should be readily available to preparers, therefore the costs are not expected to be excessive. The IASB Staff had considered either a prospective application or a limited/modified retrospective approach but did not consider them appropriate for reasons explained in paragraphs 13 to 16 of IASB agenda paper 5C.

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		(a) *Prospective application*[1] is for situations whereby there are operational challenges to apply to all prior period; costs to obtain the information would outweigh the benefits from investors; there are discrete nonrecurring events/transactions; and proposals are materially different from the existing requirements. The IASB Staff consider that these reasons are not generally applicable to the proposed amendments. Also, prospective application would decrease comparability and may be misleading to users. (b) *Application of a modified retrospective approach*[2] would be more suitable when there has been only a change in recognition and measurement requirements. The tentative decisions to date on presentation and disclosures represent significant changes to the financial statements and users of financial statements would benefit from comparability in prior periods.
Entities already applying IFRS Accounting Standards		
Assessing the need for transition relief: Clarifications made to	The IASB tentatively decided for an entity already applying IFRS Accounting Standards: (i) to require the entity to treat the fair value at the beginning of the earliest comparative period	The IASB Staff list some potential changes in classification, measurement and restatements within equity (presentation) in paragraphs 23 to 25 of its agenda paper 5C. The IASB Staff do not consider it impracticable to apply the changes retrospectively for:

[1] Prospective application would require an entity to apply the proposed amendments only to financial instruments issued after the proposed amendments are first applied.

[2] Applying the modified retrospective method, an entity would apply the proposed amendments retrospectively in accordance with IAS 8 except not be required to restate prior periods. The entity may restate prior periods if, and only if, it is possible without the use of hindsight and the restated financial statements reflect all the requirements.

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classification requirements	presented as the amortised cost of the financial liability at that date if it is impracticable (as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) for the entity to apply the effective interest method retrospectively. (ii) not to require the entity to separate the liability and equity components if the liability component of a compound financial instrument with a contingent settlement provision was no longer outstanding at the date of initial application.	(a) *changes that require remeasurement of the financial liability to the full amount or present value of the redemption amount*, e.g., the proposed clarification that the financial liability component of a compound instrument with a contingent settlement provision should be initially measured at the full amount of the conditional obligation and entities should use the same approach for subsequent measurement i.e., ignore the probability and estimated timing of the contingent event; (b) *for changes that require restatements within equity*, e.g., if the entity does not already have access to the returns associated with an ownership interest and the initial recognition of the obligation to redeem own equity instruments was recognised against non-controlling interests or issued share capital instead of another component of equity (more examples are in paragraph 25 of the IASB Staff paper 5C); Regarding tentative decision (i), (a) for changes in classification from equity instruments to financial liabilities upon initial application of the proposed amendments, the IASB Staff thought that some entities could face difficulties in applying the proposed amendments retrospectively as hindsight might be required to determine the effective interest rate or apply the effective interest method retrospectively. (b) for financial liabilities that should have been classified as equity, the IASB Staff consider that the original issue price can be determined. Therefore, no transition relief is proposed for these instruments. Regarding tentative decision (ii), this is similar to the transition provision in IFRS 1 (paragraph D18 of IFRS 1). Also, for some instruments, the liability

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		component is no longer outstanding at the date of initial application of the proposed amendments and, consequently, separating these compound financial instruments would have no benefit as it would result in separating two components in equity. A question will be included in the ED to identify other cases where retrospective application would require hindsight.
Assessing the need for transition relief: New presentation and disclosure requirements		Retrospective application of the proposed presentation and disclosure requirements would provide useful information that enhances consistency and comparability. The IASB Staff did not think any specific transition relief for these proposed requirements is needed because the expected benefits of retrospective application would outweigh the expected costs. However, the IASB Staff acknowledge that if retrospective application is required, entities would need sufficient time for implementation because some of the information may not currently be captured by the systems today or may be more difficult to report at the level of granularity required for example, the new proposed disclosures on priority on liquidation, terms and conditions and potential dilution.
Disclosure requirements on transition	The IASB tentatively decided for an entity already applying IFRS Accounting Standards: (iii) to require the entity to disclose the nature and amount of any changes in classification resulting from initial application.	Regarding tentative decision (iii), the IASB Staff consider that will be beneficial to highlight such changes to users of financial statements. The IASB Staff recommend requiring an entity to disclose the following information as at the beginning of the earliest comparative period or the date of initial application (if the change in classification only affects the prior year): (a) the previous classification and carrying amount determined immediately before applying the proposed amendments; and

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	(iv) to provide transition relief from the quantitative disclosures in paragraph 28(f) of IAS 8[3].	(b) the new classification and carrying amount determined after applying the proposed amendments. Regarding tentative decision (iv), the IASB Staff consider that the cost of providing quantitative information required by paragraph 28(f) of IAS 8 would exceed the benefits particularly because clarifying the underlying principles in IAS 32 could affect many line items throughout the financial statements based on the current diversity in practice of applying some requirements in IAS 32 to various complex financial instruments.
Interim periods	The IASB tentatively decided for an entity already applying IFRS Accounting Standards: (v) not to provide any transition relief from the requirements in IAS 34 *Interim Financial Reporting* for interim financial statements issued within the annual period in which the entity first applies the amendments.	The IASB Staff indicate that the proposed presentation and disclosure requirements are significant in response to direct feedback from users. The IASB Staff note that no specific transition relief for interim financial reports was given in other IFRS Accounting Standards such as IFRS 9 or IFRS 16 *Leases*. An entity would need to apply judgement in determining what to disclose regarding the nature and effect of changes in accounting policies and how much information to provide to update the relevant information presented in the most recent annual financial report.

[3] Paragraph 28 of IAS 8 contains disclosure requirements on initial application of an IFRS Accounting Standard (or amendments thereto), including:
(a) the title of the IFRS;
(b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;
(c) the nature of the change in accounting policy;
(d) when applicable, a description of the transitional provisions;
(e) when applicable, the transitional provisions that might have an effect on future periods;
(f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
(i) for each financial statement line item affected; and
(ii) if IAS 33 Earnings per Share applies to the entity, for basic and diluted earnings per share;
(g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
(h) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

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First-time adopters		
	The IASB tentatively decided for first-time adopters, not to require any additional transition relief.	In its paper, the IASB Staff had recommended transition relief whereby where it is impracticable (as defined in IAS 8) to determine the fair value of a financial liability prior to the date of transition, an entity would use the fair value at the date of transition. At the April IASB meeting, some members asked to make clear in the wording that any transitional relief in IFRS 1 would still be applicable to the first-time adopters and the IASB Staff is not proposing anything in addition to what is in IFRS 1.

EFRAG Secretariat analysis

4 The EFRAG Secretariat, in general, welcomes the retrospective application with the restatement of comparative information for reasons indicated by IASB. There have been significant changes to the disclosures and users would benefit from comparability in prior periods.

5 Nonetheless, the EFRAG Secretariat notes that classification of issued financial instruments is based on the terms and conditions at inception of the contract. When initially applying the amendments relating to FICE, some entities might need to change their accounting policies and therefore this may require a retrospective change in classification for these financial instruments. The EFRAG Secretariat has some reservations on the cost impact for these instances.

6 In addition, the EFRAG Secretariat welcomes the different transition relief because, for e.g., some entities may need to change their accounting policies when the proposed amendments would be initially applied as a result of a retrospective change in classification which would affect their recognition and measurement or when hindsight may need to be applied.

7 Nonetheless, the EFRAG Secretariat notes that no specific transition relief for interim financial reports are given so entities would have to first apply the proposed amendments, for example in Q1. Therefore, this should be taken into consideration when determining an effective date in order give entities sufficient time for implementation of the proposed amendments.

Questions for EFRAG FR TEG

8 Does EFRAG FR TEG agree with the IASB's tentative decisions on transition? Please explain.

9 Do EFRAG FR TEG have any particular significant practical concerns on the IASB's tentative decisions on transition? Please explain.