

Assets and liabilities of subsidiaries, associates and joint ventures	
a) Subsidiary, joint venture or associate adopts later than group	2033
b) Group adopts later than subsidiary, joint venture or associate	2033
c) Parent entities adopting earlier or later than the group	2034
Compound financial instruments	2034
Designation of previously recognised financial instruments	2034
Fair value measurement of financial assets or financial liabilities at initial recognition	2034
Decommissioning liabilities included in the cost of property, plant and equipment	2036
Financial assets or intangible assets accounted for in accordance with IFRIC 12	2037
Borrowing costs	2037
Designation of contracts to buy or sell a non-financial item	2038
Severe hyper-inflation	2038
Joint arrangements	2038
Stripping costs in the production phase of a surface mine	2039
Extinguishing financial liabilities with equity instruments	2039
Regulatory deferral accounts (IFRS 14)	2039
Customer contracts	2039
Presentation and disclosure	2042
Comparative information	2042
Other comparative information	2042
Comparative information on the application of IFRS 9	2043
Reconciliations	2043
Errors under previous GAAP	2044
Designation of financial assets or financial liabilities	2044
Use of fair value as deemed cost	2045
Use of deemed cost for investments in subsidiaries, joint ventures and associates	2045
Use of deemed cost for oil and gas assets	2045
Use of deemed cost for operations subject to rate regulation	2045
Interim financial reports	2045
Illustrative text	2049

Chapter 2

First-time adoption of IFRS (IFRS 1)

Introduction

2.1 The underlying principle of IFRS 1 is retrospective application of the standards in force at the end of an entity's first IFRS reporting period. Entities use the standards in force at the end of the latest period covered by their first IFRS financial statements in their opening IFRS balance sheet and throughout all periods presented in their first IFRS financial statements. There are specific optional exemptions and some mandatory exceptions from this general requirement.

2.2 Guidance on first-time adoption is contained within IFRS 1, except where it explicitly refers to other standards. The transition rules of other standards do not apply to first-time adopters, except where specified in IFRS 1. New standards generally include any necessary amendments to IFRS 1.

[IFRS 1 para 9].

Objective and scope

2.3 An entity's first IFRS financial statements, and any interim financial reports for part of the period covered by those first IFRS financial statements, should contain high-quality information that:

- Is transparent and comparable over all periods presented (see para 2.11).
- Gives a good starting point for using IFRS.
- Can be produced at a cost that does not exceed the benefit to users.

[IFRS 1 para 1].

2.4 IFRS 1 is applicable to all entities' first IFRS financial statements and to interim financial reports presented under IAS 34, for part of the period covered by its first IFRS financial statements. Interim financial reporting for first-time adopters is explained at paragraph 2.151 onwards.

[IFRS 1 para 2].

First IFRS financial statements

2.5 Financial statements are an entity's 'first IFRS financial statements' when the entity adopts International Financial Reporting Standards (IFRS standards)

[IFRS 1 App A].

2.6 Financial statements in accordance with IFRS standards are an entity's first IFRS financial statements if, for example, the entity's most recent previous financial statements:

- are not consistent with IFRS standards in all respects;
- do not contain an explicit and unreserved statement of compliance, even where they conform with IFRS standards in all respects (this would generally be the case for financial reporting information prepared for group reporting purposes);
- state that they are consistent with some, but not all, IFRS standards;
- apply national requirements and some IFRS standards for specific items; or
- apply national requirements with a reconciliation to IFRS standards.

[IFRS 1 para 3(a)].

FAQ 2.6.1 – Is the context relevant?

FAQ 2.6.2 – Does group reporting financial information qualify as IFRS financial statements?

FAQ 2.6.3 – Where the most recent financial statements previously complied with some, but not all, IFRS standards, will the financial statements qualify as first IFRS financial statements?

2.7 Financial statements might also be an entity's first IFRS financial statements where its previous financial statements:

- were prepared for internal use, without making them available to owners or other external users;
- were prepared for consolidation or group reporting purposes, but are not a complete set of financial statements under IAS 1; or
- do not contain comparatives.

[IFRS 1 para 3(b)–(d)].

FAQ 2.7.1 – For an entity that has historically been preparing financial statements using multiple GAAPs, none of which are IFRS, what is its previous GAAP for the purpose of its first set of IFRS financial statements?

FAQ 2.7.2 – First IFRS financial statements: no comparative information presented

2.8 Financial statements are not 'first IFRS financial statements' and IFRS 1 is not applied where:

- an entity previously prepared both IFRS (containing an explicit and unreserved statement of compliance) and local (national) financial statements, but then stopped presenting the local financial statements;
- the previous year's financial statements were in accordance with national requirements and contained an explicit and unreserved statement of compliance with IFRS standards; or
- the previous year's financial statements contained an explicit statement of compliance with IFRS standards, but the auditors' report was qualified (other than where the qualification relates to non-compliance with IFRS standards).

[IFRS 1 para 4].

FAQ 2.8.1 – First IFRS financial statements: qualified audit opinion for the impact of a qualification for non-compliance with IFRS

Repeated first-time application

2.9 An entity can be a first-time adopter more than once. An entity might cease applying IFRS standards for various reasons and then decide to adopt IFRS standards again, although this would be unusual and could give rise to regulatory scrutiny. There might be a difference between the requirements for general purpose statutory financial statements and financial statements prepared to comply with specific regulatory requirements (for example, in an IPO). This might lead to the situation of an entity having more than one adoption date.

[IFRS 1 para 4A].

FAQ 2.9.1 – Repeated first-time adoption in connection with an IPO

FAQ 2.9.2 – Repeated first-time adoption

Recognition and measurement

Date of transition

2.10 The date of transition is the beginning of the earliest period for which an entity presents full comparative information under IFRS standards in its first IFRS financial statements. IFRS 1 requires an entity to prepare and present an opening balance sheet as a primary statement at the date of transition to IFRS standards. IFRS 1 does not require an entity to present an opening balance sheet in its interim financial report in the year of first-time adoption. However, this is good information for users and can be included either in the interim financial

report or in a previously issued transition document. Comparative periods are discussed in more detail in paragraph 2.138.

[IFRS 1 para 6]. [IFRS 1 App A].

Accounting policies

Accounting policies throughout first IFRS financial statements

2.11 Entities should use the same accounting policies throughout their first IFRS financial statements and in their opening IFRS balance sheet. These accounting policies should be those complying with the accounting standards effective at the end of an entity's first IFRS reporting period. An entity's first IFRS reporting period is the "latest reporting period covered by an entity's first IFRS financial statements". An entity adopting IFRS standards for the first time should use the current version of an IFRS standard throughout the periods presented in its first IFRS financial statements.

[IFRS 1 para 7].

2.12 The IAS 8 disclosures for changes in accounting policies are not required for a first-time adopter. IAS 8 also does not apply to changes made to accounting policies during the period of an entity's first IFRS financial statements. This includes a change in policy between publication of an entity's first IFRS interim report and the entity's first IFRS financial statements. However, an entity must explain any changes in its first IFRS financial statements and provide updated reconciliations (see further para 2.143). This disclosure requirement also applies where an entity changes its use of the exemptions in IFRS 1 between the interim report and its first IFRS financial statements.

[IFRS 1 para 27].

FAQ 2.12.1 – Standards in force at the end of the first IFRS reporting period not yet known

FAQ 2.12.2 – Change in accounting policies during year of first-time adoption

Standards not mandatory at the end of an entity's first IFRS reporting period

2.13 If an IFRS standard is not mandatory at the end of an entity's first IFRS reporting period, but it allows early adoption, that IFRS standard can be used in the entity's first IFRS financial statements. IFRS 1 does not require an entity to use a more recent version of an IFRS standard, but rather explains the advantages of applying a more recent version of an IFRS standard.

[IFRS 1 para 8].

2.14 Entities do not have to base their choice of policies, when first applying IFRS

Initial recognition and measurement

2.15 All items in an entity's opening IFRS balance sheet should be recognised and measured in accordance with the standards in force at the end of an entity's first IFRS reporting period. These requirements are applied retrospectively as follows:

- Recognise all assets and liabilities whose recognition is required by IFRSs standards.
- Do not recognise items as assets or liabilities if IFRS standards do not permit such recognition.
- Reclassify items that were recognised as one type of asset, liability or component of equity under previous GAAP, but that are a different type of asset, liability or component of equity under IFRSs standard.
- Apply IFRS standards in measuring all recognised assets and liabilities.

[IFRS 1 para 19].

2.16 Most changes made on adoption of IFRS standards should be dealt with as adjustments to retained earnings or another appropriate category of equity at the date of transition. Certain assets might be measured at fair value with changes in equity. The adjustments to recognise those items should be made to a category of equity other than retained earnings, as follows:

- The difference between the fair value at initial recognition and the fair value at the date of transition, for financial assets classified at fair value through other comprehensive income, less any amounts recycled.
- The result of remeasuring derivative financial instruments classified as cash flow hedges in accordance with IFRS 9.
- The difference between cost of property, plant and equipment and fair value where the allowed alternative in IAS 16 is adopted.

There are limited circumstances in which adjustments on transition are made against goodwill (see further para 2.55).

[IFRS 1 para 11].

Deferred tax impacts

2.17 Entities will apply IAS 12 at the date of transition. There will be deferred tax impacts from some of the accounting policy changes that are made on transition to IFRS standards or on use of exemptions in IFRS 1. An entity should apply IAS 12 to temporary differences between the carrying amount of the assets and liabilities and their tax bases as at the date of its opening IFRS balance sheet. These deferred tax impacts should also be accounted for as part of the adjustments made on transition against retained earnings or another

appropriate category of equity. In limited circumstances, deferred tax is adjusted against goodwill (see further para 2.55).

[IFRS 1 para IG5].

Mandatory exceptions and optional exemptions from full retrospective application

2.18 The general requirement of IFRS 1 is full retrospective application of all accounting standards effective at the end of an entity's first IFRS reporting period. IFRS 1 has two categories of exceptions to full retrospective application: mandatory exceptions and optional exemptions.

[IFRS 1 para 12].

2.19 The exceptions and exemptions, and their application, are summarised below:

Mandatory exceptions from full retrospective application	Scope – exception applies to	Dealt with from (para)
Estimates	All estimates, unless the bases adopted are not compliant with IFRS	2.20
Derecognition of financial assets and liabilities	All non-derivative financial assets and liabilities derecognised before the date of transition, unless the entity decides to adjust retrospectively under paragraph B3 of IFRS 1	2.25
Hedge accounting	All hedging relationships in existence from accounting periods beginning prior to adoption of IFRS 9	2.27
Non-controlling interests	All equity in a subsidiary not attributable, directly or indirectly, to a parent	2.38
Classification and measurement of financial assets	All financial assets at the transition date	2.40
Embedded derivatives	All embedded derivatives	2.41
Impairment of financial assets	Application of the impairment requirements of IFRS 9	2.43
Government loans	All government grants classified as financial liabilities under IAS 32	2.44

First-time adoption of IFRS (IFRS 1)

Optional exemptions from full retrospective application	Scope – exemption, where taken, applies to	Dealt with from (para)
Business combinations	All business combinations prior to the transition date; or, if the entity chooses to apply IFRS 3 to a combination prior to the transition date, all combinations prior to that date	2.46
Share-based payment transactions	Equity instruments granted on or before 7 November 2002, or equity instruments granted after 7 November 2002 and vested by the date of transition	2.78
Insurance contracts	All insurance contracts	2.80
Deemed cost	Any tangible fixed asset, investment property and a limited number of intangible assets	2.81
Leases	All arrangements that contain a lease	2.95
Cumulative translation differences	All cumulative translation differences existing at the date of transition	2.99
Investments in subsidiaries, joint ventures and associates	Any investments in subsidiaries, joint ventures and associates in separate financial statements	2.100
Assets and liabilities of subsidiaries, associates and joint ventures	All such assets and liabilities whose transition date is different from that of the parent/group	2.104
Compound financial instruments (from the issuer perspective)	All compound financial instruments where the liability component has been settled by the date of transition	2.112
Designation of previously recognised financial instruments	Any financial instrument	2.114
Fair value measurement of financial assets or financial liabilities at initial recognition	All relevant financial assets or financial liabilities	2.118
Decommissioning liabilities included in the cost of property, plant and equipment	All decommissioning liabilities	2.120
Financial assets or intangible assets accounted for in accordance with IFRIC 12	All relevant financial assets or intangible assets accounted for in accordance with IFRIC 12	2.123
Borrowing costs	All borrowing costs	2.124

Optional exemptions from full retrospective application	Scope – exemption, where taken, applies to	Dealt with from (para)
Designation of contracts to buy or sell a non-financial item	Elimination of ‘accounting mismatches’	2.126
Severe hyper-inflation	Any entity with functional currency that was, or is, the currency of a hyper-inflationary economy	2.127
Joint arrangements	A first-time adopter can apply the transition provisions in IFRS 11, with certain exceptions	2.129
Stripping costs	First-time adopters can apply the transitional provisions set out in paragraphs A1 to A4 of IFRIC 20	2.130
Extinguishing financial liabilities with equity instruments	Extinguishing of financial liabilities within the scope of IFRIC 19	2.131
Regulatory deferral accounts (IFRS 14)	All regulatory deferral accounts of an entity that conducts rate-regulated activities	2.132
Customer contracts	Transition provisions of IFRS 15	2.136

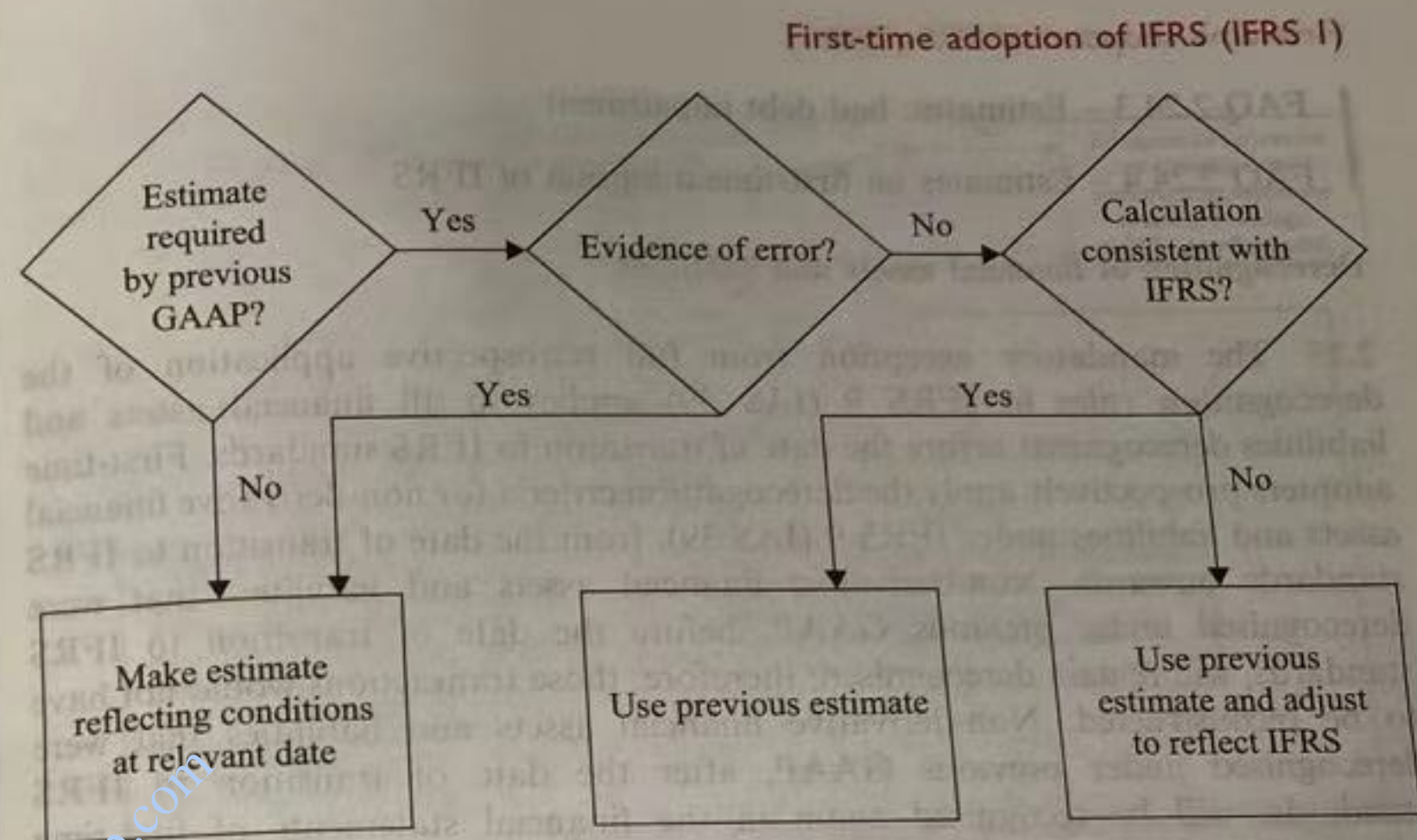
Exceptions to the retrospective application of other IFRS standards

Estimates

2.20 Estimates made should be consistent with those made under previous GAAP, unless the bases adopted are not compliant with IFRS standards. Hindsight cannot be used for estimates, either at the date of transition or at any point during the comparative period, including the end of the comparative year. More information that comes to light about estimates made under previous GAAP is treated in the same way as non-adjusting events after the balance sheet date under IAS 10, unless the previous estimate was in error.

[IFRS 1 para 14].

2.21 The following decision chart summarises the guidance:



2.22 Certain estimates might not have been required by a first-time adopter’s previous GAAP (or at the date of the comparative balance sheet), but are required by IFRS standards. Entities make those estimates on transition, and they base those estimates on conditions that existed at the date of transition (or at the date of the comparative balance sheet). Estimates should not be updated for conditions later than the date of transition to IFRS standards or the date of the comparative balance sheet in the first IFRS financial statements. For example, an entity might have to fair value an interest rate swap when adopting IFRS standards that it did not have to fair value under its previous GAAP. Any estimates that are required to determine fair value should be based on conditions at the date of transition to IFRS standards (or the date of the comparative balance sheet), and not on later conditions.

[IFRS 1 para 16].

2.23 A calculation, or method of estimation, might not be consistent with IFRS standards. An IFRS method of estimation should be used if a method of estimation used under previous GAAP does not accord with that required by IFRS standards.

[IFRS 1 para IG3].

2.24 Estimates should be consistent with those made under previous GAAP ‘after adjustments to reflect any difference in accounting policies’. An entity might decide to adopt the revaluation model in IAS 16 for a class of property, plant and equipment. It does so from the date of transition, as a change in accounting policy rather than as a change in accounting estimate. The entity might need to revalue its property, plant and equipment at the date of transition. This revaluation is part of the change in policy (to a revaluation basis), and it should be accounted for as of the date of the opening balance sheet under IFRS.

FAQ 2.24.3 – Estimates: bad debt impairment

FAQ 2.24.4 – Estimates on first-time adoption of IFRS

Derecognition of financial assets and liabilities

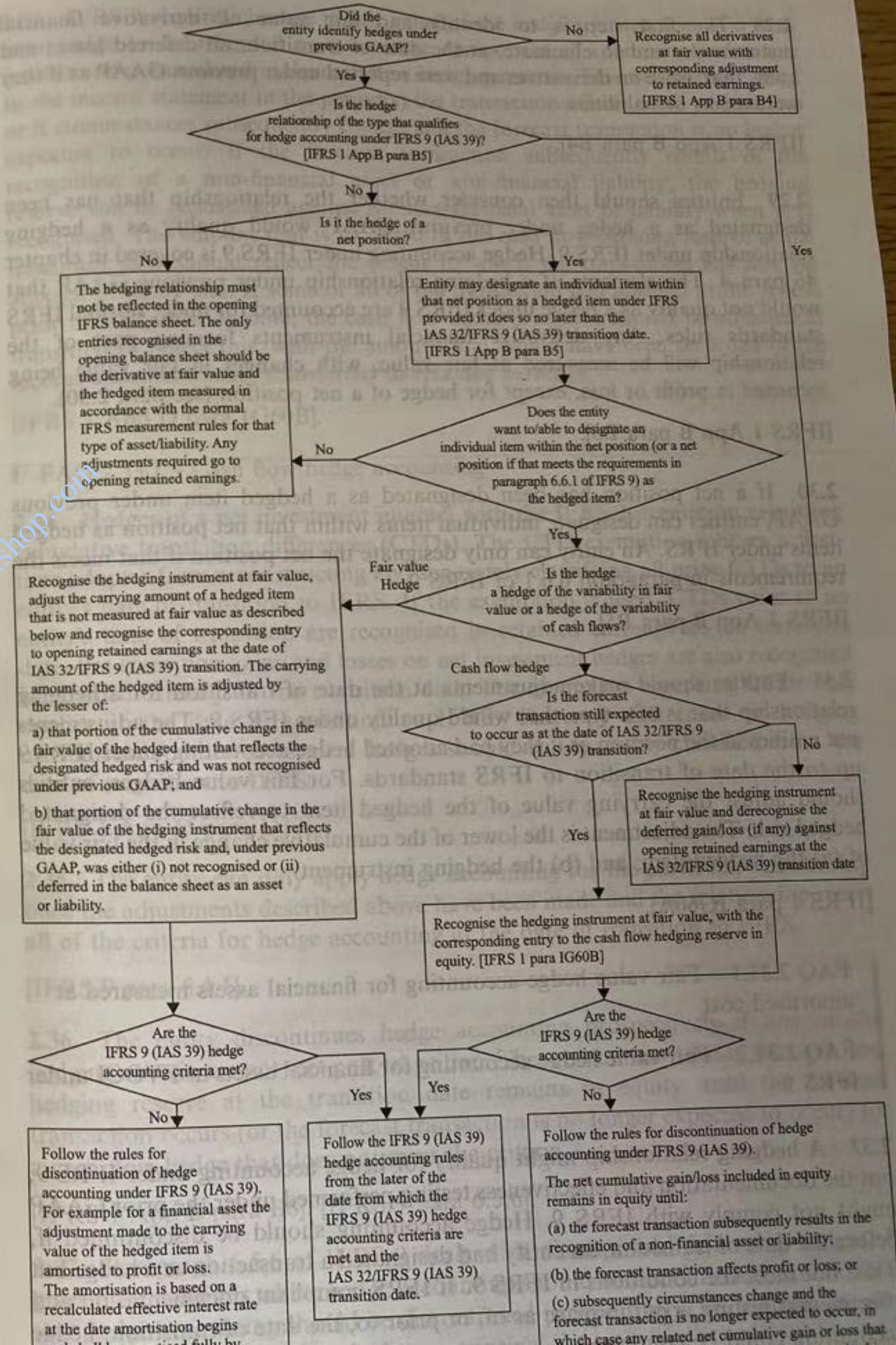
2.25 The mandatory exception from full retrospective application of the derecognition rules in IFRS 9 (IAS 39) applies to all financial assets and liabilities derecognised before the date of transition to IFRS standards. First-time adopters prospectively apply the derecognition criteria for non-derivative financial assets and liabilities under IFRS 9 (IAS 39), from the date of transition to IFRS standards onwards. Non-derivative financial assets and liabilities that were derecognised under previous GAAP, before the date of transition to IFRS standards, will remain derecognised; therefore, those transactions would not have to be reconstructed. Non-derivative financial assets and liabilities that were derecognised under previous GAAP, after the date of transition to IFRS standards, will be recognised again in the financial statements of first-time adopters, if they do not qualify for derecognition under IFRS 9 (IAS 39). [IFRS 1 App B para B2].

2.26 However, an entity can elect to recognise non-derivative financial assets and liabilities by reconstructing the related past transactions if the relevant information is available. An entity can retrospectively apply the derecognition requirements in IFRS 9 (IAS 39) from a date of the entity's choosing, provided that such an entity has the information required by IFRS 9 (IAS 39) at the time of initially accounting for those transactions. [IFRS 1 App B para B3].

Hedge accounting

2.27 Hedge accounting under IFRS standards can be used only from the date when the designation and documentation of a hedge relationship is completed. IFRS 1 does not permit an entity to apply transitional provisions as a first-time adopter of IFRS. Accordingly, the transitional provision allowing existing IFRS reporting entities to continue applying IAS 39 hedging does not apply to first-time adopters. IFRS 9 must be applied in full by a first-time adopter. However, paragraph 6.1.3 of IFRS 9 does permit all entities to apply IAS 39 hedge accounting to a fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities (and for only such a hedge). As this is permitted by IFRS 9 and not a transitional provision, this election can also be applied by first-time adopters. Additionally, IFRS 1 provides a general short-term exemption from the requirements to restate comparatives for IFRS 9. See further discussion in paragraph 2.142. Specific IFRS 9 transition provisions also apply to

First-time adoption of IFRS (IFRS 1)



2.28 The first step is to identify and fair value all derivative financial instruments, and to eliminate, at the date of transition, all deferred losses and gains that arose on derivatives and were reported under previous GAAP as if they were assets or liabilities.

[IFRS 1 App B para B4].

2.29 Entities should then consider whether the relationship that has been designated as a hedge under previous GAAP would qualify as a hedge under IFRS 9. Hedge accounting under IFRS 9 is covered in chapter 46 para 4. The elements of a hedging relationship under previous GAAP that would not qualify as a hedge under IFRS 9 are accounted for under normal IFRS standards rules. Any derivative financial instruments forming part of the hedging relationship will be measured at fair value, with changes in fair value being recorded in profit or loss, except for hedge of a net position (see para 2.30).

[IFRS 1 App B para B6].

2.30 If a net position has been designated as a hedged item under previous GAAP, entities can designate individual items within that net position as hedged items under IFRS. An entity can only designate the net position if that meets the requirements in paragraph 6.6.1 of IFRS 9.

[IFRS 1 App B para B5].

2.31 Entities should make adjustments at the date of transition for a hedging relationship that is of a type that would qualify under IFRS 9. The adjustments should put entities in the position as if they had adopted hedge accounting under IFRS 9 up to the date of transition to IFRS standards. For fair value hedges, entities should adjust the carrying value of the hedged item to reflect the designated hedged risk. The adjustment is the lower of the cumulative change in the fair value of (a) the hedged item, and (b) the hedging instrument.

[IFRS 1 para IG60A].

FAQ 2.31.1 – Fair value hedge accounting for financial assets measured at amortised cost

FAQ 2.31.2 – Fair value hedge accounting for financial assets at FVOCI under IFRS 9

2.32 A hedging relationship might qualify for hedge accounting under IFRS 9 but the documentation and effectiveness testing performed under the prior GAAP should be discontinued.

2.33 IFRS 9 requires changes in fair value of the hedging instrument of a cash flow hedge to be recorded as a separate component of other comprehensive income and accumulated in the cash flow hedging reserve. This will be reclassified to the income statement in the period(s) the transaction affects profit or loss or if circumstances subsequently change and the forecast transaction is no longer expected to occur. If the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the hedging reserve will be reclassified against the non-financial asset or liability when it is recognised. The amount that is recorded in the cash flow hedging reserve at the transition date should reflect the extent to which the transaction has not yet affected profit or loss. If some or all of the transaction had affected profit or loss prior to the transition date, the cash flow hedging reserve should be adjusted at transition to reflect this, with the amount that would have been recorded in the income statement being transferred to retained earnings.

[IFRS 1 App D para IG60B].

FAQ 2.33.1 – Cash flow hedge accounting

2.34 Hedges of a net investment interact with the IFRS 1 exemption regarding cumulative translation differences (CTDs). The CTD exemption relieves a first-time adopter from reconstructing and separately classifying all prior CTDs to an entity's date of transition to IFRS. If the exemption is used, CTDs prior to an entity's date of transition are recognised in retained earnings at the transition date. Pre-transition gains and losses on net investment hedges are also recognised in retained earnings at the transition date. The exemption regarding CTDs only applies at the date of transition to IFRS. Currency differences on hedging instruments for net investment hedges should be separately classified from the date of transition to IFRS.

[IFRS 1 App D para D13].

2.35 The entity can only apply hedge accounting for the particular relationship once the adjustments described above have been made and the relationship meets all of the criteria for hedge accounting at the date of transition to IFRS.

[IFRS 9 para 6.4.1].

2.36 The entity discontinues hedge accounting prospectively if any of the hedging criteria are not met post transition. The amount recorded in the cash flow hedging reserve at the transition date remains in equity until the forecast transaction occurs (or the forecast transaction is no longer expected to occur) for a cash flow hedge that does not meet the criteria.

[IFRS 1 App B para B6]. [IFRS 9 para 6.5.6].

2.37 Paragraph 6.5.6 of IFRS 9 deals with discontinued fair value hedges. It gives the conditions where hedge accounting should be discontinued, and it states that hedge accounting should be discontinued prospectively. See chapter 46 para

FAQ 2.37.1 – Not used

FAQ 2.37.2 – Not used

FAQ 2.37.3 – Not used

FAQ 2.37.4 – Discontinue of fair value hedge accounting: instrument at fair value through other comprehensive income

FAQ 2.37.5 – Discontinue of cash flow hedge accounting: loan

FAQ 2.37.6 – Discontinue of cash flow hedge accounting: forecast transaction

Non-controlling interests

2.38 An entity must apply the following requirements of IFRS 10 prospectively from the date of transition to IFRS standards:

- “(a) the requirement in IFRS 10 paragraph B94 that total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;
- (b) the requirements in IFRS 10 paragraphs 23 and B93 for accounting for changes in the parent’s ownership interest in a subsidiary that do not result in a loss of control; and
- (c) the requirements in IFRS 10 paragraphs B97–B99 for accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of IFRS 5.”

[IFRS 1 App B para B7].

2.39 However, if a first-time adopter elects to apply IFRS 3 retrospectively to past business combinations, it must restate all later business combinations, and must also apply IFRS 10 from that same date in accordance with paragraph C1 of IFRS 1.

[IFRS 1 App C para C1].

Classification and measurement of financial assets

2.40 IFRS 9 has two measurement approaches for financial assets: amortised cost, and fair value. The classification and measurement guidance in IFRS 9 must be applied from the transition date.

accounted for as a derivative on the basis of the conditions that existed at the later of (a) the date when it first became a party to the contract, and (b) the date when a re-assessment is required by paragraph B4.3.11 of IFRS 9 (see chapter 41 para 3 for embedded derivatives guidance).

[IFRS 1 App B para B9].

2.42 There are several reliefs available for certain retrospective aspects of IFRS 9 for a first-time adopter. The entity might determine that it is impracticable to assess for a financial asset the modification of the time value of money element or the significance of the fair value of a pre-payment option. An entity might assess the contractual cash flow characteristics of that financial asset without taking into account those IFRS 9 requirements. Further, a first-time adopter might determine that it is impracticable to apply retrospectively the effective interest method. The fair value of the relevant financial asset or financial liability, in such a case, is the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to IFRS standards.

[IFRS 1 App B para B8A]. [IFRS 1 App B para B8B]. [IFRS 1 App B para B8C].

Impairment of financial assets

2.43 An entity applies the impairment requirements of IFRS 9 retrospectively (subject to paras 7.2.15 and 7.2.18–7.2.20 of IFRS 9). The first-time adopter uses reasonable and supportable information to determine the credit risk at the date when the financial instruments were initially recognised, and to compare that to the credit risk at the date of transition to IFRS standards.

[IFRS 1 App B para B8D]. [IFRS 1 App B para B8E].

Government loans

2.44 A first-time adopter classifies all government loans received as financial liabilities or equity in accordance with IAS 32. Government loans with a below-market rate of interest are normally measured at fair value on initial recognition. First-time adopters apply the requirements of IAS 20 prospectively to government loans existing at the date of transition to IFRS standards, unless the necessary information was obtained at the time of initially accounting for that loan. If a first-time adopter did not, under its previous GAAP, recognise and measure a government loan in accordance with IAS 20, it uses the loan’s previous GAAP carrying amount at the date of transition to IFRS standards as the loan’s carrying amount in the opening IFRS statement of financial position. An entity applies IAS 20 after the date of transition to IFRS.

Exemptions from full retrospective application

2.45 The general requirement of IFRS 1 is full retrospective application of accounting standards effective at the end of an entity's first IFRS reporting period, whether those standards require prospective application or have transition rules. There are various targeted exemptions to this rule. Any exemption to this rule could be taken. The exemptions might not be applicable by analogy to other items. Refer to the table in paragraph 2.19 above for a complete listing of all exemptions.

[IFRS 1 para 18].

Business combinations

2.46 An entity can choose not to restate any business combination that occurred prior to its transition to IFRS standards, and it can apply IFRS 3 prospectively to business combinations in accordance with IFRS 3 from any point in time prior to the date of transition. If a first-time adopter elects to apply IFRS 3 retrospectively to business combinations, it must restate all business combinations from the transition date that is prior to the transition date. The entity also must apply IFRS 10, IAS 36 and IAS 38 from that same date. Only the current version of IFRS 3 is used by a first-time adopter.

[IFRS 1 App C para C1].

FAQ 2.46.1 – What version of IFRS 3 should a first-time adopter use?

2.47 The main provisions of the business combinations exemption are summarised in the table below:

First-time adoption of IFRS (IFRS 1)

Classification (as acquisition, merger, reverse acquisition)	Provision	Adjustments made against	Dealt with from (para)	
	<ul style="list-style-type: none"> Classification is the same as it was under previous GAAP. 	<ul style="list-style-type: none"> Not applicable. 	2.48	
Recognition	<ul style="list-style-type: none"> Assets and liabilities previously recognised in the business combination. 	<ul style="list-style-type: none"> Recognise all assets and liabilities in accordance with IFRS standards, except some financial assets and liabilities derecognised under previous GAAP, where the derecognition exception is applied. Do not recognise assets and liabilities whose recognition is not permitted by IFRS standards. 	<ul style="list-style-type: none"> Equity, except that, where an intangible asset is derecognised, it is adjusted against goodwill. 	2.49
	<ul style="list-style-type: none"> Assets and liabilities not previously recognised in the business combination in consolidated balance sheet of the acquirer. 	<ul style="list-style-type: none"> Recognise assets and liabilities only if they would be recognised in accordance with IFRS standards in the financial statements of the acquiree. 	<ul style="list-style-type: none"> Equity, except where an intangible asset is recognised that had previously been subsumed within goodwill, which is adjusted against goodwill (as any related deferred tax and non-controlling interests). 	2.51
Measurement	<ul style="list-style-type: none"> Measure all assets and liabilities in accordance with IFRS standards. Where IFRS standards requires measurement at fair value, measure on this basis. For assets and liabilities measured at cost, the amount recorded on original combination is deemed cost for cost-based measurement. 	<ul style="list-style-type: none"> Equity. 	2.54	

Classification

2.48 A first-time adopter can elect to apply IFRS 3 prospectively to business combinations that occur on or after the date of transition to IFRS standards and not restate any business combinations prior to that date. The business combinations exemption applies to all transactions that meet the IFRS standards definition of a business combination, irrespective of its original classification under the entity's previous GAAP. So, a business combination before the date of transition that was classified as an asset acquisition is allowed to apply the exemption rules.

[IFRS 1 App C para C1].

FAQ 2.48.1 – IFRS 3 exemption from date prior to transition date

FAQ 2.48.2 – Business combination not included in the previous GAAP financial statements

FAQ 2.48.3 – IFRS 3 exemption: step acquisition

FAQ 2.48.4 – IFRS 3 exemption: business combination classification under previous GAAP

Recognition

2.49 Business combinations prior to the transition date do not have to be restated. All of the assets and liabilities pertaining to those combinations should be recognised and measured in accordance with IFRS standards. There are, however, certain exceptions to this.

[IFRS 1 App C para C4].

2.50 The recognition criteria for assets and liabilities acquired and recognised in past business combinations under the exemption are the same as those for other assets and liabilities of an entity adopting IFRS standards. However, the corresponding entries for any adjustments required on first-time adoption of IFRS standards are different in some cases. Recognised assets and liabilities acquired in past business combinations should not be recognised in an entity's opening IFRS balance sheet if their recognition is not permitted by IFRS standards. The adjustment for derecognition is made to retained earnings or another appropriate category of equity except for intangible assets acquired as part of a business combination. Any intangible asset recognised on a business combination under previous GAAP that cannot be recognised under IAS 38 should be adjusted against (that is, added to) goodwill. Any related deferred tax and non-controlling interest should also be adjusted against goodwill.

[IFRS 1 App C para C4(c)]

First-time adoption of IFRS (IFRS 1)

not recognised under previous GAAP. These assets and liabilities should only be recognised on adoption of IFRS standards if they would have qualified for recognition in the separate balance sheet of the acquiree under IFRS standards. If an intangible asset that was previously subsumed within goodwill is recognised, the adjustment should be made against goodwill. Related deferred tax and non-controlling interest should also be adjusted against goodwill. Any other adjustments are recognised against retained earnings, or another appropriate category of equity.

[IFRS 1 App C para C4].

FAQ 2.51.1 – Recognition of intangible assets when using IFRS 3 exemption

FAQ 2.51.2 – IFRS 3 exemption: treatment of in-process research and development (IPR&D) costs

2.52 An acquired entity might have a separately acquired intangible asset that met the recognition criteria under IAS 38 but was expensed under previous GAAP. The intangible asset is recognised as an asset on transition to IFRS standards, and it is included in an entity's opening IFRS balance sheet at its acquisition date fair value, as adjusted for any amortisation or impairment to the date of transition to IFRS standards.

[IFRS 1 App C para C4].

2.53 An entity must recognise all assets and liabilities, other than intangibles, where IFRS standards require their recognition, whether or not they were acquired as part of a business combination. The criteria for recognition of most other assets and liabilities is the same, whether they were acquired as part of a business combination, acquired directly by the reporting entity or internally generated.

[IFRS 1 App C para C4].

Measurement

2.54 Assets and liabilities acquired in a business combination and recognised using the business combinations exemption are measured on the following basis:

- Any assets and liabilities measured at fair value under IFRS standards are measured at fair value on transition to IFRS standards, whether or not they were acquired in a past business combination. Any adjustment arising from remeasurement should be made against retained earnings or another appropriate category of equity.
- For assets and liabilities measured on a cost basis under IFRS standards, the carrying value of an asset or liability immediately after a business combination is deemed cost for any cost-based measurement, going forward. Therefore:

- Previous GAAP fair value adjustments do not have to be revised. The fair value of an asset or liability recorded under previous GAAP at the date of acquisition becomes its deemed cost for IFRS standards purposes, even though the values determined might not comply with IFRS standards.
- If the pooling of interests method was applied at the time of acquisition, the deemed cost will be the carrying value in the acquiree's books at the acquisition date.
- The carrying value of the other tangible and intangible assets will not be adjusted, unless:
 - they were impaired in accordance with IAS 36; or
 - the depreciation/amortisation charge since the acquisition date is materially different from the charge calculated in accordance with IFRS standards.

[IFRS 1 App C para C4].

FAQ 2.54.1 – First-time adoption for business combinations: derecognition of liability

FAQ 2.54.2 – First-time adoption for business combinations: derecognition of intangible asset

FAQ 2.54.3 – Not used

FAQ 2.54.4 – First-time adoption for business combinations: measurement of intangible assets

FAQ 2.54.5 – First-time adoption for business combinations: measurement of provisions

FAQ 2.54.6 – First-time adoption for business combinations: measurement of finance lease under IFRS 16

Goodwill

2.55 Goodwill in an entity's opening IFRS balance sheet, if the business combinations exemption is used, should be stated at its carrying amount prior to the date of transition under that entity's previous GAAP, adjusted for any intangibles and impairment as follows:

- Any previously recognised intangible assets that do not qualify for recognition under IFRS 3 should be restated to their carrying amount at the date of transition under that entity's previous GAAP, adjusted for any intangibles and impairment as follows:

should be recorded in retained earnings (or revaluation reserve, if required by IAS 36). Goodwill under previous GAAP cannot be restated to adjust any previous amortisation or impairments.

[IFRS 1 App C para C4].

2.56 Existing IFRS standards preparers can adjust goodwill for changes in contingent consideration if they have relevant transactions that were accounted for under the 2004 version of IFRS 3. First-time adopters cannot adjust goodwill for subsequent changes in contingent consideration.

2.57 Goodwill that was written off to reserves under previous GAAP cannot be reinstated as an asset. Goodwill that was taken directly to reserves is not transferred to the income statement as part of any gain or loss on disposal. If goodwill has previously been written off to reserves, any adjustments that IFRS 1 requires to be made against goodwill will also go to reserves.

[IFRS 1 App C para C4(i)].

2.58 Similar rules apply for any goodwill for associates and joint ventures determined under previous GAAP that was deducted from reserves and not included in the carrying amount of the associate or joint venture. The goodwill is not reinstated on transition to IFRS standards, nor is it recycled through the income statement when the associate or joint venture is sold.

FAQ 2.58.1 – First-time adoption for business combinations: goodwill

2.59 Goodwill should not be adjusted on transition to reverse any adjustments that IFRS 3 would not have permitted, but that had been made under previous GAAP between the date of the business combination and the date of transition. IFRS 3 allows a measurement period of a maximum of 12 months from the acquisition date to complete the accounting for a business combination. An entity's previous GAAP might have allowed a period greater than 12 months. Any adjustments to goodwill made under previous GAAP falling outside the permitted measurement period under IFRS 3 would not be reversed on transition to IFRS standards.

[IFRS 1 App C para C4(h)(iii)].

Deferred tax and business combinations

2.60 There are no exemptions from the requirements of IAS 12 for first-time adopters. IFRS 3 creates a number of related deferred tax issues, whether or not the business exemption is used or any previous business combinations are restated. Any adjustments made to amounts recorded on past business combinations should be made to the measurement of deferred tax. A first-time

Is the arrangement the acquisition of a business?

Analysis

Yes. Property Co would conclude that this is a business combination.

If the concentration test were applied, it would not be passed, since substantial part of the fair value of the assets acquired is not concentrated in a single asset or a group of similar identifiable assets. Further analysis is required, following the framework with outputs, to assess whether a process is acquired and whether the process is substantive. A business is acquired, because the organised workforce is a substantive process with the necessary skills that is critical to the ability to develop and combine inputs (that is, land, buildings and in-place leases) into outputs.

Identifying a business combination

FAQ 29.21.1 – Share repurchase by investee

Example

Entity A owns an equity investment in an investee (that meets the definition of a business) that gives it significant influence but not control. The investee repurchases its own shares from other parties, and the proportional interest of entity A increases. Entity A obtains control over the investee.

Analysis

This is a business combination without transfer of consideration, and the acquisition method is applied by entity A.

FAQ 29.21.2 – Change in the rights of other shareholders

Example

Entity B owns a majority share of its investee's voting equity interests. The investee meets the definition of a business. Entity B is precluded from exercising control over the investee, due to contractual rights held by the other investors in the investee. These rights expire, and entity B obtains control over the investee.

Analysis

Analysis

This is a business combination without consideration, and the acquisition method would be applied to the arrangement. Entity C reflects this transaction as a business combination in which it obtained control of entity D.

FAQ 29.21.4 – Exchange of assets resulting in acquisition of a business

Example

Entity A transfers a radio broadcast licence to entity B in exchange for a radio station. Entity A determines that the radio station that it receives is a business, while entity B determines that the radio broadcast licence that it receives is an asset.

How should each entity treat the transaction?

Analysis

Entity A would account for the acquired radio station as a business combination by applying the acquisition method. The consideration transferred is the fair value of the radio broadcast licence. Entity B accounts for the radio broadcast licence as an asset acquisition under the applicable IFRS.

Stapling transactions and dual-listed entities

FAQ 29.23.1 – Are stapling transactions and the formation of dual-listed entities considered business combinations?

Question

Are stapling transactions and the formation of dual-listed entities considered business combinations?

Answer

Stapling transactions and dual-listed entities are rare, and they occur on certain territories. A stapling transaction is a contractual arrangement between two legal entities. One legal entity issues equity securities that are combined (that is, stapled to) the securities issued by the other legal entity. The securities are quoted at a single price and cannot be traded or transferred independently.

...ment between two listed legal en

Stapling arrangements were discussed by the IFRS IC in May 2014. A stapling arrangement that combines separate entities and businesses by the unification of ownership and voting interests in the combining entities is a business combination, as defined by IFRS 3. Stapling transactions and the formation of dual-listed entities typically occur without the transfer of consideration (see further para 29.36 onwards).

Merger of equals, mutual enterprises, and 'roll-up' or 'put-together' transactions

FAQ 29.24.1 – Are the merger of equals, mutual enterprises, and 'roll-up' or 'put-together' transactions considered business combinations?

Question

Are the merger of equals, mutual enterprises, and 'roll-up' or 'put-together' transactions considered business combinations?

Answer

Combinations of mutual enterprises are also within IFRS 3's scope. The IASB acknowledged some differences between mutual enterprises and corporate business entities, but concluded that such differences were not substantial enough to warrant separate accounting. The entity deemed to be the acquirer in a combination of mutual enterprises should account for the transaction using the acquisition method.

'Roll-up' or 'put-together' transactions typically result where several unrelated entities in the same market, or in similar markets, combine to form a larger entity. The IASB concluded that, although these transactions might not cause a single entity to obtain control of the combined entity, they are similar to other types of business combination, and the acquirer should account for the transaction using the acquisition method.

Multiple transactions that result in the acquisition of a business

FAQ 29.25.1 – Effecting a business combination through a series of linked transactions

Analysis

The transactions form a business combination. Separation into three transactions does not affect the substance of the arrangements. The transactions are linked, and the substance is that entity G has acquired entity H's television business. Entity G accounts for the combined effect of the transactions as an acquisition of entity H.

The acquisition method

Identifying the acquirer

FAQ 29.32.1 – How might the acquirer be identified in a stapling arrangement?

Question

How might the acquirer be identified in a stapling arrangement?

Answer

A stapling arrangement, that combines separate entities and businesses by the unification of ownership and voting interests in the combining entities, is a business combination under IFRS 3. The standard provides guidance on identifying the acquirer by assessing the relative voting rights in the combined entity after the combination. The acquirer is usually the combining entity whose owners, as a group, receive the largest portion of the voting rights in the combined entity. This guidance is relevant in identifying which of the combining entities is the acquirer in the stapling transaction.

FAQ 29.35.1 – What other considerations can be used in identifying the acquirer?

Question

What other considerations can be used in identifying the acquirer?

Answer

Some circumstances can complicate the identification of the acquirer. For example:

- *Acquisitions involving entities with overlapping ordinary (common) shareholders:* The effect of common ownership (but not common control) among the shareholders of the combining entities should be considered in identifying the accounting acquirer. The analysis of the relative voting rights of the combining entities with common shareholders

absent the consideration of any of the other factors provided in the standards.

- Options, warrants and convertible instruments: Potential voting rights assumed or exchanged (as options, warrants and convertible instruments) are considered in the determination of the accounting acquirer if the holders of these instruments are viewed to be essentially the same as common shareholders. For example, holders of the debt that is convertible and 'in the money' prior to the acquisition. See chapter para 75 for further guidance on determining whether potential voting rights should be taken into account in assessing control.

FAQ 29.37.1 – Is the acquisition of an established private entity by a small listed entity an example of a reverse acquisition?

Question

Is the acquisition of an established private entity by a small listed example of a reverse acquisition?

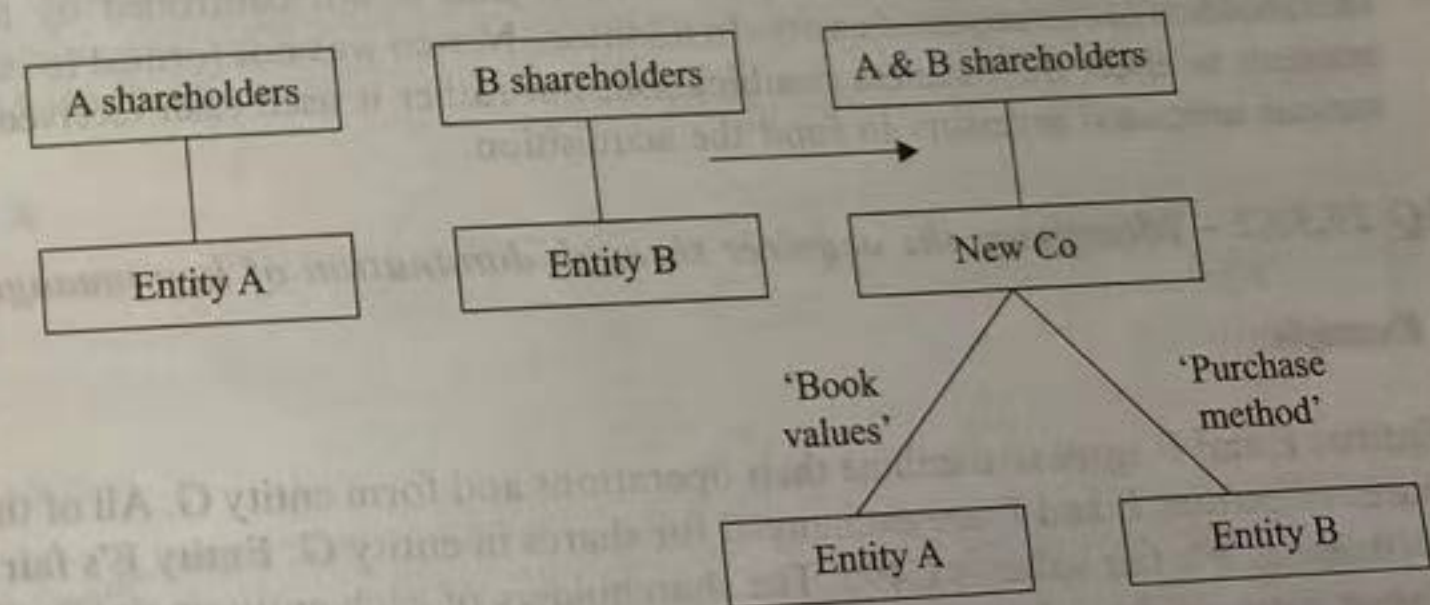
Answer

An example of a reverse acquisition is where a well-established unlisted trading entity arranges to have itself 'acquired' by a listed smaller entity that is a business and, as part of the agreement, the listed entity's directors resign and are replaced with directors appointed by the unlisted entity and its former owners. The motivation for such transactions is often that, by combining with the listed entity, the unlisted trading entity obtains a listing for itself. Although, legally, the listed entity is regarded as the parent and the unlisted entity is regarded as the subsidiary, the legal subsidiary is the accounting acquirer if it controls the legal parent. If so, the combination is accounted for as the acquisition of the listed entity by the unlisted entity – in other words, reverse acquisition accounting. Situations where the listed entity does not meet the definition of a business are not business combinations. Generally, these are treated as capital reorganisations. For further discussion see to FAQ 13.4.12 – Reverse acquisition of a listed shell.

substance, no different from a transaction in which one of the combining entities directly acquires the other. Therefore, the transaction is accounted for in the same way as a transaction in which one of the combining entities directly acquires the other. [IFRS 3 para BC98]. [IFRS 3 para BC99]. [IFRS 3 para BC100]. [IFRS 3 para BC101].

IFRS 3 does not specify the accounting for the 'combination' of the new entity and the acquirer if, the new entity is not substantive. However, under the principles of IFRS 3, the combination of the new entity and the existing entity deemed to be the acquirer is not a business combination. [IFRS 3 App B para B18]. The combination of these two entities is, in substance, a reorganisation. This means that the acquiring entity's net assets are recorded at book value in the new entity's consolidated financial statements.

Example 1 – Business combination using a new entity – new entity is not considered substantive



The shareholders of entities A and B agree to merge, to benefit from lower delivery and distribution costs. The business combination is carried out by setting up a new entity (New co), that issues 100 shares to entity A's shareholders and 50 shares to entity B's shareholders in exchange for the transfer of the shares in those entities. The number of shares reflects the relative fair values of the entities before the combination.

Is New co the acquirer? If not, which entity is the acquirer, and how is the combination accounted for?

Analysis

No, New co is not the acquirer. The transaction has brought together entities A and B. Legally, it has been effected by New co acquiring entities A and B, rather than one of these entities acquiring the other. New co is a new entity that has been formed to issue the combination. One of the combining entities th

New co's consolidated financial statements reflect entity A as the acquirer and the acquiree, and acquisition accounting is applied to entity B's assets and liabilities.

Example 2 – Business combination using a new entity – new entity is considered substantive

A Newco is formed by various unrelated investors for the purpose of acquiring a business. Newco issues equity to the investors for cash. Using the cash received, Newco purchases 100% of the equity of a company.

Is Newco the accounting acquirer?

Analysis

In this case, Newco could be determined to have economic substance and identify the accounting acquirer, because it was established for the purpose of acquiring control of a business and not simply a vehicle to combine two existing businesses. Newco, itself, obtained control of a business and is not controlled by the former shareholders of the acquired entity. In addition, Newco was not formed to issue its interests to effect the business combination, but rather it used cash received from various unrelated investors to fund the acquisition.

FAQ 29.39.2 – Identifying the acquirer through domination of key management

Example

Entities E and F agree to combine their operations and form entity G. All of the voting shares of entities E and F are exchanged for shares in entity G. Entity E's fair value is C510; entity F's fair value is C490. The shareholders of each entity maintain the same relative voting rights in the combined entity. Entity E's shareholders own 51% of the voting rights in entity G, and entity F's shareholders own 49%.

Entity G's board of directors has eight members, four of whom are appointed by entity E's shareholders and four by entity F's shareholders. All key decisions require approval of 55% of the shareholders. The parties have agreed that entity E's shareholders will have the right to appoint entity G's CEO and CFO.

How is the transaction accounted for in entity G's financial statements?

Analysis

This is a business combination between entities E and F. Entity G cannot be identified as the acquirer to effect the business combination.

An acquirer can be identified if one of the parties to a business combination is able to dominate the selection of the combined entity's management. Entity F will dominate the key management appointments of the combination, suggesting that entity F has dominated the selection and is the acquirer. [IFRS 3 App B para B15(d)].

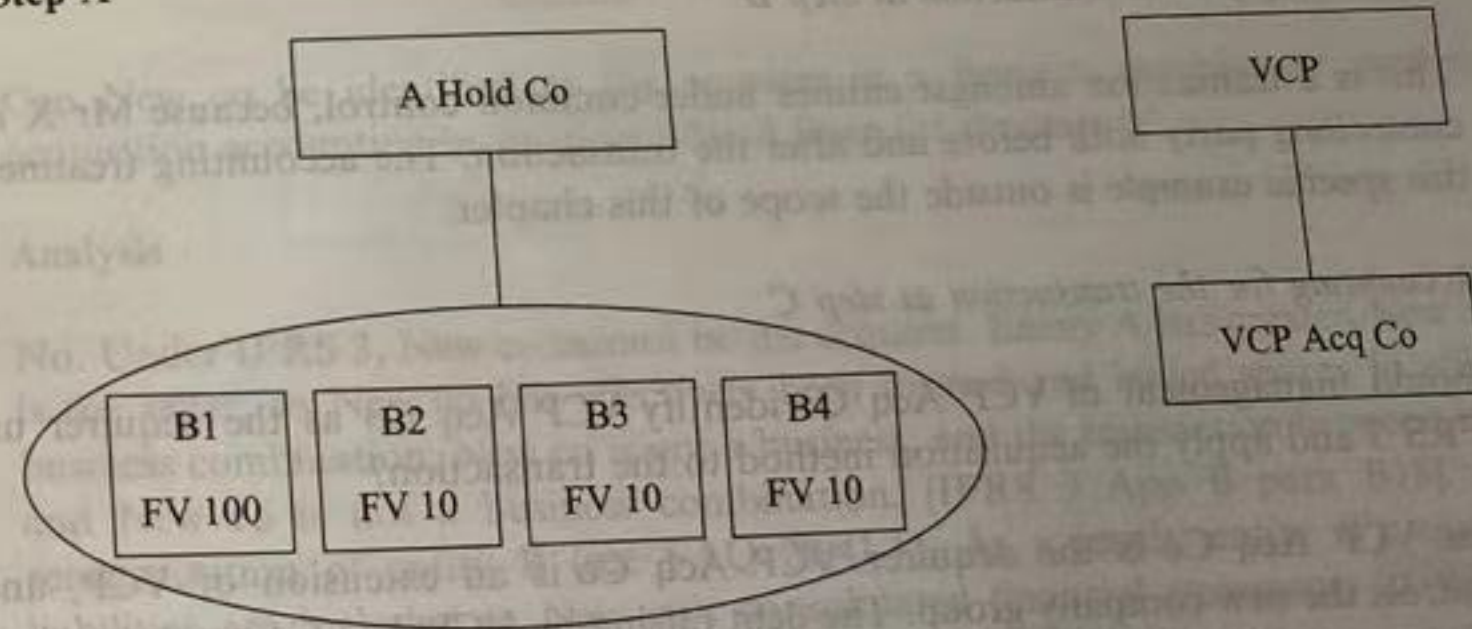
FAQ 29.40.1 – New company set up by venture capital entity to acquire business

Example

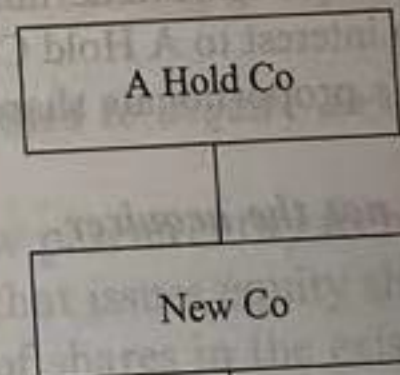
Holding company A (A Hold Co) is owned 100% by Mr X. It has a group of businesses, the 'B businesses', which it is intending to sell. Several potential purchasers have been identified. Management of A Hold Co is conducting negotiations and preparing the B businesses for sale. Management incorporates a new company, New co, which issues shares to acquire 100% of the various legal entities that comprise the B businesses.

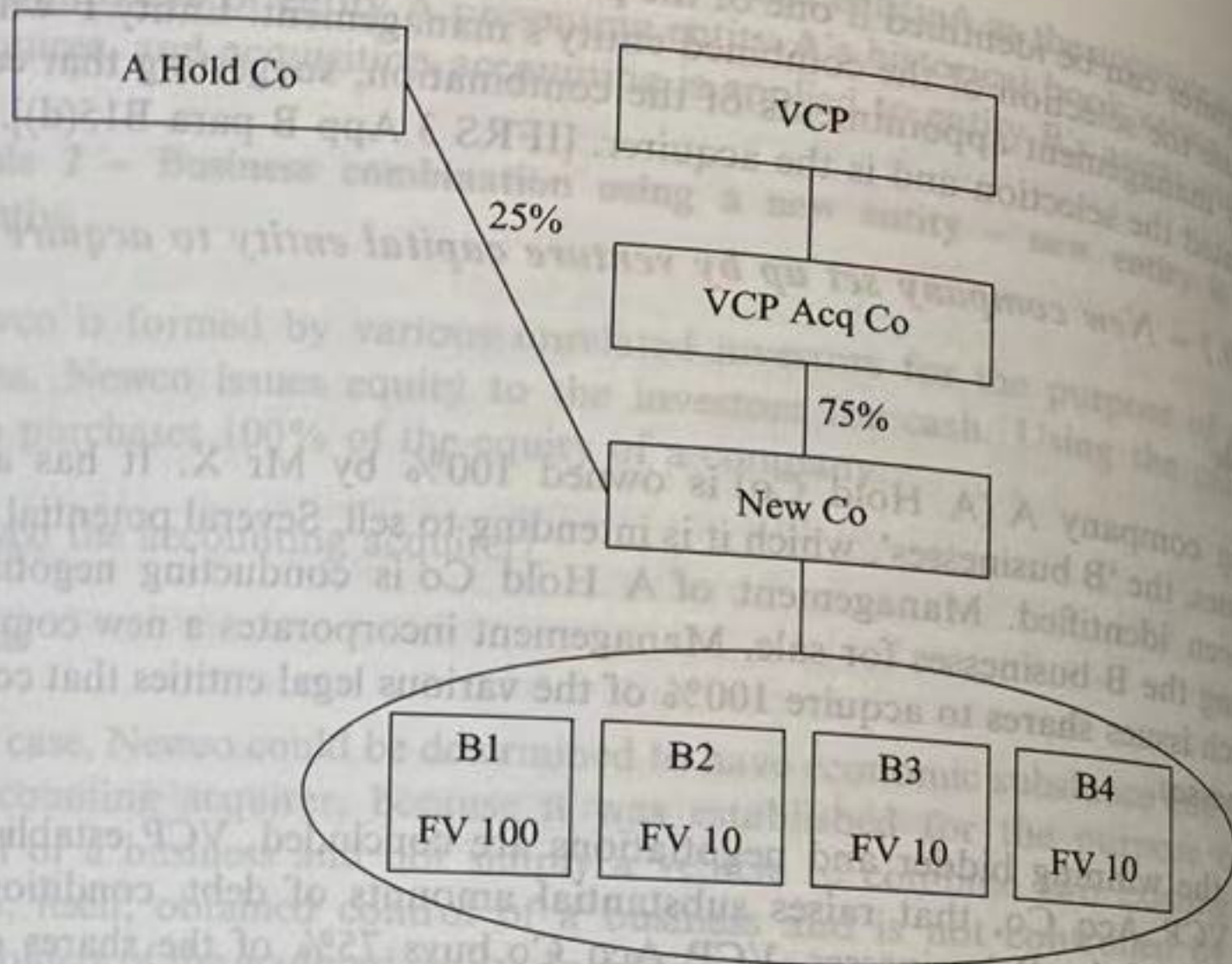
VCP is the winning bidder and negotiations are concluded. VCP establishes a new entity, VCP Acq Co, that raises substantial amounts of debt, conditional on the acquisition of the B businesses. VCP Acq Co buys 75% of the shares of New co from A Hold Co for cash.

Step A



Step B





Analysis

Accounting for the transaction at step B

This is a transaction amongst entities under common control, because Mr X is the controlling party both before and after the transaction. The accounting treatment for this specific example is outside the scope of this chapter.

Accounting for the transaction at step C

Should management of VCP Acq Co identify VCP Acq Co as the acquirer under IFRS 3 and apply the acquisition method to the transaction?

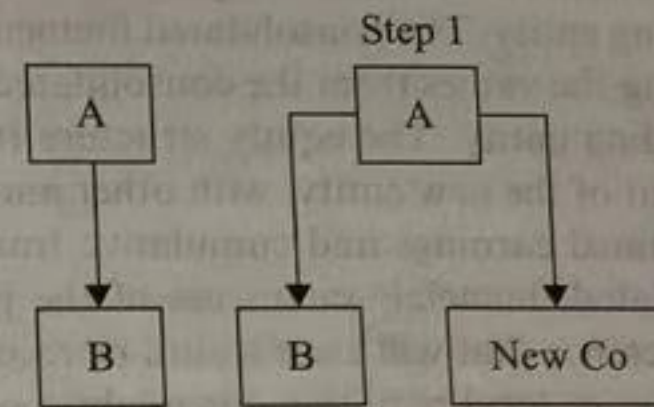
Yes, VCP Acq Co is the acquirer. VCP Acq Co is an extension of VCP, and it controls the new company group. The debt raising by VCP Acq Co creates economic substance. VCP Acq Co has acquired New Co and the B businesses from A Hold Co. VCP Acq Co records the assets and liabilities of the acquired businesses in its consolidated financial statements at fair value in accordance with IFRS 3. It also records a 25% non-controlling interest to A Hold Co, measured either at fair value or at the non-controlling interest's proportionate share in the identifiable net assets.

FAQ 29.40.2 – New company is not the acquirer

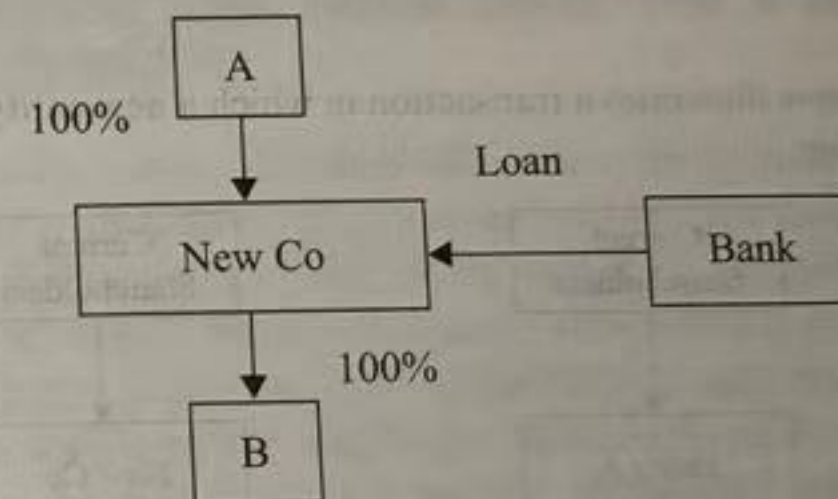
Example

Entity A owns entity B before the transaction. Entity A arranges loan funding from a financial institution in a new wholly owned subsidiary, New Co. The loan is used by New Co to fund the acquisition of entity B, for cash.

Pre transaction structure



Post transaction structure



Can New Co be identified as the acquirer in a business combination and apply acquisition accounting in its consolidated financial statements?

Analysis

No. Under IFRS 3, New Co cannot be the acquirer. Entity A has created New Co and is the seller, so New Co has effectively been formed and issued shares to effect the business combination. New Co is not a business, and the transaction between Entity B and New Co is not a business combination. [IFRS 3 App B para B18]. It is a reorganisation of Entity B (see FAQ 29.41.1). As a result, Entity B's assets and liabilities are included in New Co's consolidated financial statements at their pre-combination carrying amounts, without a fair value uplift.

New entity formed to acquire an existing group

FAQ 29.41.1 – New entity formed to acquire an existing group

It is not uncommon for a new parent entity to be added to an existing group by setting up a new shell entity that issues equity shares to the existing shareholders in exchange for the transfer of shares in the existing group, such that there is no change in the substance of the reporting entity. This might be done for a variety of reasons, including taxation and profit distributions.

There is no specific guidance in IFRS 3 when a new entity is placed on top of an existing group by issuing shares to the existing shareholders, apart from the fact that the transaction would not be a business combination.