IFRS

STAFF PAPER

September 2017

IFRS Interpretations Committee Meeting

Project	IFRS 1 *First-time Adoption of International Financial Reporting Standards*—Subsidiary as a first-time adopter		
Paper topic	Agenda decision to finalise		
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Introduction

1. The IFRS Interpretations Committee (Committee) received a request to clarify the accounting applied by a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent. The subsidiary has foreign operations, on which it accumulates translation differences in a separate component of equity. The request asked whether, applying paragraph D16 of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the subsidiary is permitted to recognise cumulative translation differences (CTD) at the amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs.

2. At its meeting in March 2017, the Committee noted that paragraph D16 of IFRS 1 permits such a subsidiary to measure its assets and liabilities, but not components of equity, based on the parent's date of transition to IFRSs. Accordingly, the Committee concluded that when the subsidiary becomes a first-time adopter of IFRS Standards, the subsidiary accounts for CTD applying paragraphs D12–D13 of IFRS 1. This requires the subsidiary to recognise CTD at its date of transition to IFRSs either at zero or on a retrospective basis.

3. The Committee concluded that the requirements in IFRS Standards provide an adequate basis for a first-time adopter to determine how to account for CTD.

Consequently, the Committee tentatively decided not to add this matter to its standard-setting agenda.

4. The purpose of this paper is to:

   (a) analyse the comments received on the tentative agenda decision; and

   (b) ask the Committee if it agrees with the staff recommendation to finalise the agenda decision.

Comment letter summary

5. We received four comment letters, reproduced in Appendix B to this paper.

6. Three respondents (Deloitte, Mazars and ASBJ) agree with the Committee's technical conclusion. However, they recommend that the Board consider amending IFRS 1 to extend the exemption in paragraph D16 to CTD. ASBJ says this matter is also relevant for associates and joint ventures that become a first-time adopter of IFRS Standards later than an entity that has significant influence or joint control over it.

7. Considering the purpose of the exemption in paragraph D16 of IFRS 1 (as explained in the basis for conclusions), one respondent (JFTC) suggests it might be possible to interpret that paragraph differently—namely, that the exemption would apply to components of equity as well as assets and liabilities. JFTC also recommends that the Board consider amending IFRS 1 to extend the exemption in paragraph D16 to CTD.

8. Further details of respondents' responses, together with our analysis, are presented in the following section.

Staff analysis

Application of the requirements in IFRS Standards

Concern raised by respondent

9. One respondent (JFTC) says it might be possible to interpret paragraph D16 of IFRS 1 differently from the conclusions outlined in the tentative agenda decision. It says considering the purpose of the exemption and how the requirements in paragraph D16

were originally exposed and finalised, it is more natural to conclude that the exemption in paragraph D16 would also apply to CTD.

Staff analysis

10. We think an entity cannot interpret the existing requirements so that the exemption in paragraph D16 would apply to CTD. This is because paragraph D16 refers specifically to assets and liabilities, but not equity:

> If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its *assets and liabilities* at either […] (*emphasis added*)

11. Paragraph BC63 of IFRS 1 also explains the rational for providing this exemption only within the context of assets and liabilities:

> In finalising the IFRS, the Board simplified the description of the exemption for a subsidiary that adopts IFRSs after its parent. In accordance with the IFRS, the subsidiary may measure its *assets and liabilities* at the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary (*emphasis added*)

12. Moreover, paragraph 18 of IFRS 1 explicitly prohibits an entity from applying the exemptions in IFRS 1 by analogy to other items.

13. Consequently, we are of the view that the requirements in paragraph D16 of IFRS 1 apply only to the measurement of assets and liabilities.

14. JFTC says that the staff paper presented to the Committee at its March 2017 meeting highlights that the exemption proposed in the 2002 Exposure Draft *First-time Application of International Financial Reporting Standards* (Exposure Draft) did not appear to limit its application only to assets and liabilities. The exemption proposed in the Exposure Draft was as follows:

> …to avoid restatement of IFRS measurements already reported to the parent, the subsidiary is not treated as a first-time adopter

for recognition and measurement purposes […] (*emphasis added*)

15. JFTC suggests it is uncertain whether, in finalising the requirements in paragraph D16, the Board changed what appeared to be its original intention. Accordingly, JFTC thinks it would be more natural to conclude that such an intention prevails in the final Standard—ie that paragraph D16 would apply to components of equity (including CTD) as well as assets and liabilities.

16. We do not agree. The March 2017 staff paper highlighted only that the Basis for Conclusions on IFRS 1 does not specifically explain the reasons for changing the more general reference to 'recognition and measurement purposes' in the Exposure Draft to 'measure its assets and liabilities' in paragraph D16. The paper concluded that there is no evidence that the Board intended anything other than what paragraph D16 says. Consequently, we continue to think that the exemption in paragraph D16 applies only to assets and liabilities.

Should the Board undertake standard-setting to extend the exemption to CTD?

17. All four respondents recommend that the Board consider amending IFRS 1 to extend the exemption in paragraph D16 so that it applies to CTD as well as the measurement of assets and liabilities, considering:

    (a) the potential effects of amending IFRS 1;

    (b) the intent of the exemption in paragraph D16;

    (c) the number of entities affected; and

    (d) the costs of applying the existing requirements.

18. One respondent also says if the Board decides to undertake standard-setting, it should address only CTD. This is because it thinks that developing an exemption for all components of equity would be likely to take a considerable amount of time.

The potential effects of amending IFRS 1

19. One respondent thinks it would be possible to amend IFRS 1 to extend the exemption in paragraph D16 to CTD without the risk of creating unintended consequences in

relation to other IFRS Standards. This is because IFRS 1 already contains various exemptions developed for practical purposes. In its view, an amendment to IFRS 1 with respect to CTD would simply entail adding another such exemption.

20. The respondent also says extending the exemption to CTD would not diminish the relevance of financial information.

21. We agree that a possible amendment to IFRS 1 to extend the exemption in paragraph D16 to CTD would be unlikely to create inconsistencies with other IFRS Standards. This is because any possible amendment to IFRS 1 would affect only first-time adopters—the effects of any amendment to IFRS 1 would be contained within IFRS 1. If extending the exemption in paragraph D16 to CTD, we think however that the Board would also need to consider whether to extend the exemption to other components of equity—this is discussed further in paragraph 37 of this paper.

22. We also agree with the second point made by the respondent. IFRS 1 already contains an exemption relating to CTD—applying paragraphs D12-D13 of IFRS 1, an entity recognises CTD either at zero or on a retrospective basis at its date of transition to IFRSs. In our view, creating a third option for a subsidiary that is a first-time adopter later than its parent would be unlikely to diminish the relevance of CTD reported by the subsidiary.

The intent of the exemption in paragraph D16

23. Two respondents say extending the exemption in paragraph D16 to CTD would appear to align with the rationale underlying paragraph D16, as explained in paragraphs BC60 and BC62. Paragraphs BC60 and BC62 say the following:

> BC60 In developing [the Exposure Draft that preceded IFRS 1], the Board concluded that a requirement to keep two parallel sets of records would be burdensome and not be beneficial to users. Therefore, the [Exposure Draft] proposed that a subsidiary would not be treated as a first-time adopter for recognition and measurement purposes…
>
> BC62 ...the Board retained the exemption [proposed in the ED] because it will ease some practical problems. Although the exemption does not eliminate all differences between the

> subsidiary's financial statements and a group reporting package, it does reduce them…

24. We agree with respondents that extending the exemption in paragraph D16 would be consistent with the rationale underlying the exemption in that paragraph. This is because a subsidiary would then be able to use the same amounts of CTD both when preparing its financial statements and in reporting information for the preparation of its parent's financial statements. This would eliminate any need to keep two sets of records for CTD based on different dates of transition to IFRSs.

The number of entities affected

25. Two respondents say the number of entities affected by this matter is not limited and is likely to increase.

26. If the exemption in paragraph D16 of IFRS 1 were to be applied to CTD, an entity would be in a position to use that CTD exemption only if it meets all of the following conditions:

    (a) the entity is a subsidiary of a parent that has already adopted IFRS Standards.

    (b) the entity has foreign operations for which it recognises CTD.

    (c) the entity prepares consolidated financial statements.

    (d) the entity's parent applied paragraph D13 of IFRS 1 at the parent's date of transition to IFRSs.

    (e) the entity adopts IFRS Standards. This might be the result of the following, for example:

        (i) The entity voluntarily adopts IFRS Standards.

        (ii) A jurisdiction newly adopts IFRS Standards, and the entity is therefore required to prepare IFRS financial statements.

        (iii) The entity becomes listed in a jurisdiction in which listed entities are required to prepare IFRS financial statements. This can happen as a result of reorganisation of a group.

    (f) the entity chooses not to report the CTD on a retrospective basis when it prepares its first IFRS financial statements.

27. We agree it is possible that the population of entities affected by this matter could increase in the future as a result of, for example, the occurrence of any of the events described in paragraph 26(e) of this paper. We also note, however, that entities that have already adopted IFRS Standards before the issuance of any amendment relating to this matter would not be part of that population.

The costs of applying the existing requirements

28. Two respondents say it is burdensome for entities to apply the existing requirements. Although acknowledging that any difference in CTD that arises on the subsidiary's date of transition to IFRSs is a static day-1 difference, they say the amount of CTD for a subsidiary and the parent changes in each reporting period.

29. We agree that the amount of CTD reported by the parent and its subsidiary might change during each period. However, unless there is either a partial or full disposal of a foreign operation, these amounts of CTD will change by the *same* amount—ie there will be no change in the day-1 difference. It is only changes to the CTD arising from a partial or full disposal of a foreign operation that affect the day-1 difference.

30. We acknowledge that it would be less costly for a subsidiary to use the same amount of CTD for its financial statements, and for the parent's consolidated financial statements, than applying the existing requirements. However, we continue to think that the cost and effort to maintain two sets of records relating to CTD would not be overly burdensome. This is because, until the date of disposal of a foreign operation, any difference is a static day-1 difference, reflecting the amount of CTD reported to the parent at the subsidiary's date of transition to IFRSs. Even when there is a partial or full disposal of a foreign operation, we do not expect the calculations to release some or all of that difference to be complex.

31. One respondent also says reporting an amount of CTD in the parent's consolidated financial statements that is different from the amount reported in a subsidiary's financial statements would create a problem from the perspective of consolidated corporate management and control. This is because amounts of profit or loss recognised on disposal of a subsidiary's foreign operation could be different between the subsidiary's financial statements and its parent's consolidated financial statements.

32. We note the concern raised is not limited to CTD. The same effect arises when, for example, a subsidiary that is a first-time adopter later than its parent applies the exemption in paragraph D16 to the measurement of assets and liabilities, but adjustments have been made for consolidation procedures or for the effects of the business combination in which the parent acquired the subsidiary. Accordingly, extending the exemption in paragraph D16 to CTD does not necessarily eliminate all differences between a subsidiary's financial statements and the amounts reported for that subsidiary in the parent's consolidated financial statements.

Other

33. One respondent says it would be inconsistent with the objective of one of the Board's feasibility studies, *SMEs that are Subsidiaries*, not to consider making an amendment to address this matter.

34. The objective of the feasibility study mentioned by the respondent is 'to assess whether it would be feasible to permit SMEs that are subsidiaries to use the recognition and measurement requirements in IFRS Standards and the disclosure requirements in the IFRS for SMEs'.[1] Using the recognition and measurement requirements in IFRS Standards would mean that such an SME would not have to keep two sets of records to prepare its financial statements and in reporting information for the preparation of its parent's consolidated financial statements, while it could benefit from reduced disclosure requirements.

35. We acknowledge that in terms of trying to reduce costs for entities, amending IFRS 1 to extend the exemption in paragraph D16 to CTD would be aligned with a potential outcome of the feasibility study. We note, however, that the feasibility study is exploring only one possible way of reducing cost and complexity for some entities that are subsidiaries. It does not point to a broader objective of eliminating differences between a subsidiary and its parent. In addition, as explained in paragraph 32 of this paper, using the same recognition and measurement requirements does not necessarily result in the same amounts being reported by a subsidiary and its parent.

[1] http://www.ifrs.org/projects/research-programme/#the-research-pipeline

Staff conclusion

36. We think the requirements in IFRS 1 provide an adequate basis for a subsidiary to determine how to measure CTD at its date of transition to IFRSs. In addition, we think the costs of applying the existing requirements are not excessive.

37. We think it would be possible to explore a narrow-scope amendment to extend the exemption in paragraph D16 to CTD as suggested by respondents, and it would be relatively straight-forward to do so. However, we think the Board would need to, as a minimum, conduct some initial research to explore the topic more broadly. This is because the issues that arise for a subsidiary that is a first-time adopter later than its parent with respect to CTD could also potentially arise with respect to other components of equity, for example cash flow hedge reserves or a revaluation surplus for property, plant and equipment. If the Board were to develop an amendment only for CTD, it would need to justify why it is proposing to provide practical relief only for that component of equity and not others. Consequently, we think that any standard-setting project would need to consider more than just CTD and, thus, would be more complex than suggested by respondents. Having said this, we think widening a project to include other components of equity may be less justifiable than a project focussing only on CTD because it would be likely to take more time with possibly little incremental benefits.

38. On balance, we are not entirely convinced that the benefits of an amendment to IFRS 1 would justify the costs of developing it. Consequently, we recommend that the Committee finalise its agenda decision.

39. However, if the Committee wishes to recommend that the Board undertake standard setting, we recommend that it first explore the consequences of extending the exemption to other components of equity in addition to CTD.

Questions for the Committee

Does the Committee agree with our recommendation to finalise the agenda decision outlined in Appendix A to this paper?

Appendix A—Proposed wording for final agenda decision

A1. We propose the following wording for the final agenda decision, which is unchanged from the tentative agenda decision except to remove the square brackets from the last sentence.

IFRS 1 *First-time Adoption of International Financial Reporting*—Subsidiary as a first-time adopter

The Committee received a request to clarify the accounting applied by a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent. The subsidiary has foreign operations, on which it accumulates translation differences in a separate component of equity. The request asks whether, applying paragraph D16 of IFRS 1, the subsidiary is permitted to recognise cumulative translation differences at the amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs.

Paragraph D16 of IFRS 1 provides a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent with an exemption relating to the measurement of its assets and liabilities. Translation differences that the subsidiary accumulates in a separate component of equity are neither an asset nor a liability. Accordingly, the Committee concluded that paragraph D16 of IFRS 1 does not permit the subsidiary to recognise cumulative translation differences at the amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs.

The Committee also concluded that the subsidiary cannot apply the exemption in paragraph D16 of IFRS 1 to cumulative translation differences by analogy—paragraph 18 of IFRS 1 explicitly prohibits an entity from applying the exemptions in IFRS 1 by analogy to other items.

Accordingly, when the subsidiary becomes a first-time adopter of IFRS Standards, the subsidiary accounts for cumulative translation differences applying paragraphs D12–D13 of IFRS 1. These paragraphs require the subsidiary to recognise cumulative translation differences either at zero or on a retrospective basis at its date of transition to IFRSs.

The Committee concluded that the requirements in IFRS Standards provide an adequate basis for a first-time adopter to determine how to account for cumulative translation differences. Consequently, the Committee ~~[~~decided~~]~~ not to add this matter to its standard-setting agenda.

Appendix B—Copies of comment letters

Document No.34
22 May, 2017

Accounting & Tax Committee
Japan Foreign Trade Council, Inc.

To IFRS Interpretations Committee

Comment on tentative agenda decisions of IFRS1 "First-time Adoption of International Financial Reporting Standards"

The following are the comments of the Accounting & Tax Committee of the Japan Foreign Trade Council, Inc. (JFTC) made in response to the solicitation of comments regarding the International Financial Reporting Interpretations Committee tentative agenda decisions “Subsidiary as a first time adopter”. The JFTC is a trade-industry association with trading companies and trading organizations as its core members, while the principal function of its Accounting & Tax Committee is to respond to developments in domestic and international accounting standards. (Member companies of the Accounting & Tax Committee of JFTC are listed at the end of this document.)

General Comments

This tentative agenda decision rejects a request submitted to the IFRS Interpretations Committee for clarification of IFRS 1. However, we believe that requiring a subsidiary that becomes a first-time adopter later than its parent to keep two parallel sets of records for cumulative translation differences (CTD) contradicts the intent of paragraph D16 (a) of IFRS 1, which is to reduce the administrative burden of first-time adopters. For this reason, we oppose this tentative agenda decision and believe that revision or clarification of IFRS 1 should be considered.

We foresee the following problem if, in accordance with this tentative agenda decision, a subsidiary becoming a first-time adopter later than its parent was required to keep two parallel sets of records for CTD. That is, disposal of a foreign operation would result in differing amounts of profit or loss between the parent's consolidated financial statement and subsidiary companies' consolidated financial statement. This would constitute a major problem from the perspective of consolidated corporate management and control. In our area of jurisdiction, voluntary transition to IFRS is permitted, but we are concerned that this problem in corporate management and control would substantially undermine the advantages of adopting IFRS and consequently suppress and retard the increase in entities voluntarily transitioning to IFRS.

Specific Issues

(1) Interpretation of the Current Paragraph D16 of IFRS 1

Based on current IFRS provisions, the subsidiary is required to apply paragraphs D12 and D13 of IFRS 1 and recognize CTD either at zero or on a retrospective basis as of its date of transition to IFRS, when a subsidiary becomes a first-time adopter later than its parent. However, paragraph D16 (a) may be interpreted to mean that some possibility remains for recognizing CTD at the amount that would be included in the parent's consolidated financial statements based on the parent's date of transition to IFRS.

(2) Intent of Paragraph D16 of IFRS 1

It is our understanding that paragraphs D16 (a) and D13 of IFRS 1 were both adopted for the purpose of reducing the administrative burden of first-time adopters. Therefore, it would not be useful for a subsidiary that becomes a first-time adopter later than its parent to, on one hand, apply the provisions of paragraph D16 (a) to measure its assets and liabilities based on the parent's date of transition to IFRS, while being required by the provisions of paragraph D13 to make measurements based on the subsidiary's date of transition to IFRS. We believe this treatment contradicts the original purpose of adopting these provisions.

Concerning this point, Staff Paper indicates that it is uncertain whether

IASB originally intended to go beyond the provisions contained in paragraph D16 (a). However, at least in the exposure draft stage of IFRS 1, there is possibility that IASB was hinting at a wider range of exemptions in recognition and measurement that went beyond assets and liabilities. If it is uncertain whether a change was later made in this intent, it would be more natural to conclude that the original intent continues to exist.

(3) Burden of Keeping Two Parallel Sets of Records for CTD When a Subsidiary Becomes a First-time Adopter Later than Its Parent

Differences in CTD must be adjusted in the event of a full or partial disposal of a foreign operation, or when a change has occurred in the equity ratio of a parent in a subsidiary that is a first-time adopter, among other cases. This implies that differences in CTD will vary in each reporting period. Furthermore, full disposal of a foreign operation normally takes a considerable period of time to complete. Determining differences in CTD for each reporting period and separately for each foreign operation would entail considerable administrative burdens for the company.

Of particular note is that such burdens would be further increased if a subsidiary holds multiple foreign operations, as the parent would be required to constantly collect information on foreign operations held by its subsidiaries.

(4) Companies Affected by This Issue

Plural member companies of JFTC have adopted IFRS for their consolidated financial statements. Among these members, some are promoting the adoption of IFRS by their subsidiaries in an effort to employ IFRS in corporate management and control. Such subsidiaries include companies that are listed in our area of jurisdiction, as well as unlisted companies operating in other jurisdictions.

Due to the growing adoption of IFRS throughout the world, an increasing number of countries have in recent years permitted the voluntary adoption of IFRS by unlisted companies. In certain instances, the subsidiaries of JFTC member companies are operating in such countries, making it highly likely for such subsidiaries to become first-time adopters later than their parents. To the best of our knowledge, these countries include the United States, Canada, the United Kingdom, parts of the European Union, Hong Kong, and Mexico. It should be noted that the subsidiaries of numerous global corporations are located in these countries.

In addition to the cases of subsidiaries voluntarily adopting IFRS later than their parents as described above, we think that subsidiaries are becoming first-time adopters after their parents in the following types of cases:

- ✓ A subsidiary becomes a listed company in a jurisdiction where only listed companies are mandated to adopt IFRS.
- ✓ As a result of intra-group reorganization, a holding company is established within a jurisdiction mandating adoption of IFRS.
- ✓ IFRS adoption becomes mandatory in a jurisdiction where a subsidiary is located. (We believe this type of case in particular will continue to increase in the future as jurisdictions mandating IFRS adoption increase.)

(5) Consistency with Pipeline Project " SMEs That Are Subsidiaries"

Following the 2015 Agenda Consultation, "SMEs that are subsidiaries" has been registered as a pipeline project. We understand that, for the purpose of reducing the administrative burdens of adopting IFRS for both parent and subsidiary companies, this project considers permitting SMEs that are IFRS adopters' subsidiaries to use the reporting method whereby recognition and measurement are based on IFRS, and disclosure is based on IFRS for SMEs.

We believe it is a contradiction to, on one hand, consider approaches to reducing administrative burdens when both parent and subsidiary companies have adopted IFRS, while on the other hand requiring subsidiaries that are becoming first-time adopters after their parents to keep two parallel sets of records for CTD pursuant to IFRS 1.

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22 May 2017

IFRS Interpretations Committee
International Accounting Standards Board
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Comments on the Tentative Agenda Decision Relating to
IFRS 1 *First-time Adoption of International Financial Reporting Standards*
—Subsidiary as a first-time adopter

1. The Accounting Standards Board of Japan (the "ASBJ") welcomes the opportunity to comment on the IFRS Interpretation Committee's (the "Committee") tentative agenda decision relating to IFRS 1 *First-time Adoption of International Financial Reporting Standards*— Subsidiary as a first-time adopter in the March 2017 IFRIC Update.

2. We agree that, based on current IFRS Standards, a subsidiary that becomes a first-time adopter later than its parent should apply paragraphs D12 and D13 of IFRS 1 and recognise cumulative translation differences (CTD) either at zero or on a retrospective basis at its date of transition to IFRSs, as stated in the tentative agenda decision.

3. However, our understanding is that paragraphs D16(a) and D13 of IFRS 1 were established from the viewpoint of reducing the practical burden on first-time adopters. If that were the case, in the light of promoting the adoption of IFRS, we think the IASB should review the requirement that, when a subsidiary that becomes a first-time adopter later than its parent and applies paragraph D16(a) of IFRS 1 and measures its assets and liabilities based on the parent's date of transition to IFRSs, paragraph D13 of IFRS 1 should be applied based on the subsidiary's date of transition to IFRSs. This is because this would place a burden on the subsidiary to

maintain two sets of records relating to the CTD for a long period of time. We note that similar issues exist when an associate or joint venture applies paragraph D16(a) of IFRS 1.

4. Accordingly, we believe the IASB should amend IFRS 1 so that a subsidiary that becomes a first-time adopter later than its parent may choose to apply paragraph D13 of IFRS 1 based on the parent's date of transition to IFRSs when the subsidiary applies the provisions of paragraph D16(a) of IFRS 1 and measures assets and liabilities based on the parent company's date of transition to IFRSs.

5. The details of our comments are as shown in the appendix.

6. We hope our comments are helpful for the Committee's and the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

Yukio Ono
Chairman of the Accounting Standards Board of Japan

Appendix

The requirement of paragraph D16(a) of IFRS 1

1. We agree that, based on current IFRS Standards, paragraph D16(a) of IFRS 1 should be applied only to assets and liabilities and not to CTD. However, considering that equity is the residual interest in the assets after deducting an entity's liabilities, we believe that this paragraph was not intended to explicitly exclude the components of equity. Accordingly, we think that this issue is essentially asking whether the provisions of paragraph D16(a) of IFRS 1 should be applied to the components of equity.

2. However, if the IASB decided to consider whether the provisions of paragraph D16(a) of IFRS 1 should be applied to the components of equity, it is likely that it will take a considerable amount of time. Based on our understanding that paragraphs D16(a) and D13 of IFRS 1 were established from the viewpoint of reducing the practical burden on first-time adopters, in the light of promoting the adoption of IFRS, we think that it is useful to make a narrow scope amendment to the requirements regarding CTD as a temporary measure.

Reviewing the requirements regarding CTD

3. Based on paragraph BC54 of IFRS 1, our understanding is that paragraph D13 of IFRS 1 permitted a first-time adopter to reset the CTD for all foreign operations at zero at the date of transition to IFRSs so that that first-time adopter could keep control of the CTD for each foreign operation and appropriately transfer the CTD to the income statement at the time of disposal of the foreign operation. We believe that this treatment not only reduces the practical burden on first-time adopters but also improves the benefits to users, from the viewpoints of transparency and comparability. Accordingly, in the case a subsidiary that becomes a first-time adopter later than its parent and measures its assets and liabilities based on the parent's date of transition to IFRSs, we think that the objective of paragraph D13 of IFRS 1 is not compromised if the subsidiary reset the CTD for all foreign operations at zero at the parent's date of transition to IFRSs because the subsidiary could keep control of the CTD for each foreign operation. We think that that it is possible to address this issue as a narrow scope amendment, considering it separately from whether paragraph D16(a) of IFRS 1 should be applied to the components of equity.

Practical burden on entities

4. We think that the burden on a subsidiary that becomes a first-time adopter later than its parent is not that small. This is because the subsidiary would be required to maintain two sets of records relating to the CTD for each foreign operation, due to the provision of paragraph D16(a) of IFRS 1 which applies only to assets and liabilities.

5. Although the difference in the CTD is a day-1 difference, the balances of the two sets of records fluctuate every reporting period, considering the application of tax effects, partial disposals of the foreign operations, or changes in the parent company's ownership interest in the subsidiary. We believe that keeping control of such differences for each foreign operation for a long period of time until the disposal of a foreign operation causes a significant burden on entities.

Entities affected by this issue

6. We think that the entities affected by this issue are not limited.

7. For example, in Japan, IFRSs are adopted on a voluntary basis, and the listing of subsidiaries of listed companies is not prohibited. Accordingly, it is not uncommon that the parent first applies IFRSs voluntarily, and then the listed subsidiary follows by subsequently applying IFRSs voluntarily. For your reference, of about 3,700 listed companies in Japan, about 270 companies are listed subsidiaries.

8. Also, a subsidiary may become a listed company later than its parent in a jurisdiction where listed companies are required to apply IFRSs, or a subsidiary may be required to apply IFRSs when a jurisdiction decides to adopt IFRS. These cases where the subsidiary becomes a first-time adopter after its parent are not unique to Japan.

9. We believe that there are many cases where paragraph D16(a) of IFRS 1 would be applied when the subsidiary applies IFRS 1, and in such situation, the problem of maintaining two sets of records relating to the CTD will arise if the subsidiary had foreign operations.

10. We note that the submission and the tentative agenda decision only discuss the case of a subsidiary. However, we think this issue is also prevalent in the case of associates and joint ventures.

Our recommendation on amendment to paragraph D13 of IFRS 1

11. We recommend amending paragraph D13 of IFRS 1 as follows (new text is underlined).

IFRS 1 ***First-time Adoption of International Financial Reporting Standards***

Cumulative translation differences

D13 However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to IFRSs.

If a first-time adopter uses this exemption:

(a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRSs; and

(b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to IFRSs and shall include later translation differences.

If a subsidiary that becomes a first-time adopter later than its parent applies paragraph D16(a) of IFRS 1, that subsidiary may choose to apply this paragraph by replacing the references to 'the date of transition to IFRSs' in this paragraph with 'the parent's date of transition to IFRSs'. Similarly, if an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it applies paragraph D16(a) of IFRS 1, that associate or joint venture may choose to apply this paragraph by replacing the references to 'the date of transition to IFRSs' in this paragraph with 'the date of transition to IFRSs of the entity that has significant influence' or 'the date of transition to IFRSs of the entity that has joint control'.

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Sue Lloyd
Chair
IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH

Dear Ms Lloyd

Tentative agenda decision – IFRS 1 *First-time Adoption of International Financial Reporting Standards*: Subsidiary as a first-time adopter

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March IFRIC Update of the tentative agenda decision not to take onto the Committee's agenda the request for clarification of the amount of cumulative translation differences to be recognised by a subsidiary that becomes a first-time adopter later than its parent.

We agree with the IFRS Interpretations Committee's analysis of the current requirements of IFRS 1, but recommend that the Board consider whether a narrow scope amendment to that standard extending the exemption in paragraph D16 to the calculation of cumulative translation differences at a subsidiary's date of transition to IFRSs would be appropriate.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader

Mrs Sue Lloyd

IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Paris, May 23, 2017

Tentative Agenda Decisions – IFRIC Update March 2017

Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the March 2017 IFRIC Update.

We have gathered all our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory.

We would like to draw your attention to Appendix 2 on modified financial liabilities. We strongly believe that this issue, which could lead to a significant change to widespread accounting practices despite the absence of any clear change in IFRS 9 compared to IAS 39, cannot be dealt with through a simple agenda decision.

We consider that such a change deserves to be introduced through an authoritative pronouncement, being an Interpretation or an Amendment to IFRS 9, including appropriate transition relief, and following a sufficient due process that would allow the Board, the Interpretations Committee and all interested stakeholders to question the economic relevance of the outcome.

Should you have any questions regarding our comments on the various tentative agenda decisions, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully

Michel Barbet-Massin **Edouard Fossat**

Financial Reporting Technical Support

MAZARS

Appendix 1

IFRS 1 *First-time Adoption of International Financial Reporting Standards* — Subsidiary as a first-time adopter (Agenda Paper 5)

We agree with the Interpretations Committee that, considering how IFRS 1 is currently written, a subsidiary that becomes a first-time adopter of IFRSs later than its parent, and that elects to apply IFRS 1.D16 to measure its assets and liabilities at transition date, is not permitted to recognize cumulative translation differences at the amount that is be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs.

Nevertheless, considering that:

- IFRS 1 not being a principle-based standard relying on strong conceptual bases, it can therefore easily be amended without creating a risk of inconsistencies with other IFRSs;
- IFRS 1.D16 was introduced as a relief for preparers, in order not to require them to keep two parallel sets of records, which would be burdensome and not be beneficial to users (BC 60);
- Introducing a double measurement of the translation differences on the basis of different transition dates would create an operational risk for the preparers without adding any benefit to the users;

we believe that the IFRS Interpretations Committee and the Board should contemplate, as part of the Annual Improvements process or under other relevant due process, the possibility of an amendment to IFRS 1 extending the D16 exemption to cumulative translation differences.

We do not see any benefit to the users of the subsidiary's financial statements from the application of D12-D13 on translation differences (i.e. full retrospective application or a fresh start) compared to the recognition of cumulative translation differences at the amount reported in the Parent's consolidated financial statements.