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20 March 2012

International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom
Email: CommentLetters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON THE EXPOSURE DRAFT ON *TRANSITION GUIDANCE* – PROPOSED AMENDMENTS TO IFRS 10 – *CONSOLIDATED FINANCIAL STATEMENTS*

In response to your request for comments on the exposure draft on *Transition Guidance* – Proposed Amendments to IFRS 10 – *Consolidated Financial Statements,* attached is the comment letter prepared by the Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, auditors, IFRS specialists and academics.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Financial Reporting

cc: Paul O'Flaherty (Chairman of the Accounting Practices Committee)

Integritas, 7 Zulberg Close, Bruma Lake, 2198 POSTAL ADDRESS PO Box 59875, Kengray, 2100, Johannesburg
TEL +27 11 621 6600 FAX +27 11 621 3321 CALL CENTRE 08610 SAICA (72422) EMAIL saica@saica.co.za WEB saica.co.za | accountancysa.org.za

SAICA SUBMISSION ON EXPOSURE DRAFT ON *TRANSITION GUIDANCE* – PROPOSED AMENDMENTS TO IFRS 10

GENERAL COMMENTS

We are supportive of the Board's proposal to clarify the date of initial application in IFRS 10 – *Consolidated Financial Statements.*

SPECIFIC COMMENTS

Question 1
The Board proposes to clarify the 'date of initial application' in IFRS 10. The date of initial application for IFRS 10 would be 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The Board also proposes to make editorial amendments to paragraphs C4 and C5 of IFRS 10 to clarify how an investor shall adjust comparative period(s) retrospectively if the consolidation conclusion reached at the date of initial application is different under IAS 27/SIC-12 and IFRS 10.
Do you agree with the amendments proposed? Why or why not? If not, what alternative do you propose?

We agree with the proposal which states that the date of initial application would be the beginning of the annual period in which IFRS 10 is applied for the first-time. Whilst comparability may be compromised because full retrospective application is not required, we are supportive of the relief provided and note that this approach is similar to the transitional relief offered by other standards such as IFRS 9 – *Financial Instruments.*

Question 2
The Board proposes to amend paragraph C3 of IFRS 10 to clarify that an entity is not required to make adjustments to the previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application is the same under IAS 27/SIC-12 and IFRS 10. As a result, the Board confirms that relief from retrospective application of IFRS 10 would apply to an investor's interests in investees that were disposed of during a comparative period such that consolidation would not occur under either IAS 27/SIC-12 or IFRS 10 at the date of initial application.
Do you agree with the amendments proposed? Why or why not? If not, what alternative do you propose?

We agree with the Board's proposal because it provides a less onerous and practical way of transitioning to IFRS 10, even though relief from full retrospective application will impact on comparability.

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OTHER COMMENTS

Reference to 'that date' in paragraph C4(a), C4(b) and C5

Paragraph C4(a) states *"~~When application of this IFRS for the first time results in~~ If, at the date of initial application, an investor concludes that it shall consolidate ~~consolidating~~ an investee that was not consolidated in accordance with IAS 27 and SIC-12 the investor shall:*

(a) *if the investee is a business (as defined in IFRS 3), measure the assets, liabilities and non-controlling interests in that previously unconsolidated investee* ***on that*** *~~the~~* ***date*** *~~of initial application~~ as if that investee had been consolidated (and thus had applied acquisition accounting in accordance with IFRS 3) from the date when the investor obtained control of that investee on the basis of the requirements of this IFRS. The investor shall adjust comparative periods retrospectively…"* (emphasis added).

Paragraph C4(b) states *"… if the investee is not a business (as defined in IFRS 3), measure the assets, liabilities and non-controlling interests in that previously unconsolidated investee* ***on that*** *~~the~~* ***date*** *~~of initial application~~ as if that investee had been consolidated (applying the acquisition method as described in IFRS 3 without recognising any goodwill for the investee) from the date when the investor obtained control of that investee on the basis of the requirements of this IFRS. The investor shall adjust comparative periods retrospectively…"* (emphasis added).

Further, paragraph C5 states: *"… ~~When application of this IFRS for the first time results in~~ If, at the date of initial application, an investor concludes that it shall no longer ~~consolidating~~ consolidate an investee that was consolidated in accordance with IAS 27 ~~(as amended in 2008)~~ and SIC-12, the investor shall measure its retained interest in the investee ~~on the~~ at* ***that date*** *~~of initial application~~ at the amount at which it would have been measured if the requirements of this IFRS had been effective when the investor became involved with, or lost control of, the investee…"* (emphasis added).

Some of our constituents have suggested that the words 'on that date' in the above-mentioned paragraphs be deleted because they could be incorrectly read to imply that the measurement date is the date of initial application rather than the date on which control was obtained.

References to IFRS 3 – *Business Combinations*

Paragraph C4(b) makes reference to IFRS 3 but has not specified whether it would be the current version of IFRS 3 or a previous version if the date of acquisition preceded the date of the current version. Our constituents had mixed views as to whether it must always be the current version or whether an earlier version can/should be applied. Some constituents argued that the version of IFRS 3 that would have been effective at the date from which control is deemed to exist in terms of IFRS 10 should be used. This would simplify the transitional impact where, for instance, the entity was previously accounting for the investee in terms of IAS 28 – *Investments in Associates,* and hence IFRS 3 principles would have already been applied based on the version of IFRS 3 that was effective at the date on which the entity commenced equity accounting the investee. Accordingly we request that the Board clarify this.

Application of IFRS 3 to an investee not defined as a business

Paragraph C4(b) applies to an investee that is not defined as a business as per IFRS 3 and yet it makes reference to '*applying the acquisition method in IFRS 3'*. Our understanding is that the IFRS 3 acquisition method would not be applicable if an investee is not a business, therefore we request that the Board removes this reference in paragraph C4(b).

Paragraph C4A

Paragraph C4A(a) and (b) make reference to the deemed acquisition date being the "*beginning of the earliest period*" for which application of IFRS 3 is practicable, which may be the current period. Paragraph C5 makes a similar reference to *"the beginning of the earliest period"* with respect to the measurement of a retained interest in an entity.

We question whether the deemed date of acquisition and the measurement of the retained interest needs to be the "*beginning of the earliest period*" (for which we note that it is not clear whether this refers to an annual or any interim period) or whether it should rather just be a '*date'* from which the application of IFRS 3 is practicable.

We note that when the *Reclassification of Financial Assets* amendments were made to IAS 39 – *Financial Instruments: Recognition and Measurement* and IFRS 7 – *Financial Instruments: Disclosures* in 2008, the original text referred to 'periods beginning on or after'. Questions were raised whether this referred to an interim, annual or even just a monthly period? Consequently, the Board deleted this wording, resulting in the amendment being applicable from a particular date, rather than the beginning of a period. Therefore, on a similar basis, we propose that the words "*beginning of the earliest period*" be replaced with the word '*date*'.

Interaction between IFRS 10 and IFRS 12 – *Disclosures of Interests in Other Entities*

IFRS 12 applies in respect of disclosures of interests in investees, as defined in IFRS 10. For example, IFRS 12.19 requires disclosure of the gain or loss on the loss of control of a subsidiary calculated in accordance with IFRS 10.25. Therefore, to the extent that IFRS 10 is not applied retrospectively (i.e. an investment previously not consolidated, that is disposed of prior to the date of initial application, is not consolidated and then deconsolidated upon the application of IFRS 10) it should be made clear in IFRS 12 that some of the quantitative disclosures are not required to be provided in the comparative period.

In addition, where an entity has an interest in an unconsolidated structured entity which is disposed of prior to the effective date of IFRS 12; we believe that the IFRS 12 disclosures should not be required for the comparative period.

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Interaction between IFRS 10 and IFRS 1 - *First-Time Adoption of International Financial Reporting Standards* which was applied previously

Some of our constituents are concerned about the retrospective application of IFRS 10 for IFRS reporters that have applied IFRS 1 previously. For example: at the date of adoption of IFRS (eg 1 January 2004), the entity had a 45% investment, which it classified correctly as an associate at that time. The entity applied the voluntary exceptions in IFRS 1 not to restate, but to use its previous GAAP carrying values on transition to IFRS. In 2013, when it applies IFRS 10, the entity concludes that, because of de facto control, it would be required to consolidate the investment from 1 June 2000 (being a date prior to the date of transition to IFRS). Some of our constituents believe that the entity should not be required to apply IFRS 3 from the date of acquisition (or a later date on which it is practicable); but should be permitted to use the information, that was used to determine the carrying value of the investment under its previous GAAP at the date of transition to IFRS, as the starting basis for consolidation. Accordingly, the Board is requested to consider providing such relief.

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