IFRS Accounting

Staff paper

Agenda reference: 9C

IASB® meeting

Date	**July 2024**
Project	**Rate-regulated Activities**
Topic	**Transition—Analysis of the proposals for retrospective application**
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Objective

1. This paper sets out staff analysis and recommendations on the proposals in the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (Exposure Draft):

   (a) to require retrospective application of the requirements by entities already applying IFRS Accounting Standards; and

   (b) to require retrospective application of the requirements by entities applying IFRS 1 *First-time Adoption of International Financial Reporting Standards* and to amend the deemed cost exemption in paragraph D8B of IFRS 1.

Staff recommendations

2. The staff recommend that the final Accounting Standard:

   (a) permit an entity already applying IFRS Accounting Standards to elect to apply the final Standard retrospectively either in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* or by using a modified retrospective approach;[1]

[1] When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements.*

(b) regardless of which approach an entity elects to use:[2]

(i) require an entity to restate comparative information for the first year immediately preceding the year of initial application;

(ii) permit an entity to present unadjusted comparative information for any earlier periods presented and, if it does so, require that it identify that comparative information as unadjusted and disclose that comparative information has been prepared on a different basis, explaining that basis; and

(iii) permit an entity to present adjusted comparative information applying the final Standard for any earlier periods presented;

(c) amend IFRS 1 *First-time Adoption of International Financial Reporting Standards* to permit a first-time adopter to use a modified retrospective approach in applying the final Standard;[3]

(d) retain the proposal that a first-time adopter present comparative information in accordance with the requirements in IFRS 1 (and the definition of the date of transition to IFRSs in IFRS 1); and

(e) retain the proposals to amend IFRS 1 by aligning the terminology and requirements in the deemed cost exemption in paragraph D8B of IFRS 1 with the final Standard, and by deleting paragraph 39V of IFRS 1.

Structure of the paper

3. This paper is structured as follows:

(a) entities already applying IFRS Accounting Standards (paragraphs 5–56); and

(b) first-time adoption (paragraphs 57–71).

[2] Agenda Paper 9D considers transition reliefs for entities already applying IFRS Accounting Standards and related disclosure requirements.

[3] Agenda Paper 9D considers transition reliefs for first-time adopters and related disclosure requirements.

4. The appendix summarises the application and transitional provisions in IFRS Accounting Standards issued from 2005 until 2014.

Entities already applying IFRS Accounting Standards

5. This section is structured as follows:
   (a) proposals in the Exposure Draft (paragraphs 6–7);
   (b) feedback (paragraphs 8–13); and
   (c) staff analysis and recommendations (paragraphs 14–56).

Proposals in the Exposure Draft

6. Paragraph C3 of the Exposure Draft proposes that an entity apply the final Standard retrospectively in accordance with IAS 8, apart from an exemption for past business combinations which is discussed in Agenda Paper 9E.

7. Paragraphs BC204–BC206 of the Basis for Conclusions accompanying the Exposure Draft describe the reasoning behind the IASB's proposals.

> BC204 The Board proposes retrospective application because information is more useful to users of financial statements if it is comparable for all periods presented.[16] The Board observed that retrospective application would be unlikely to burden preparers because to a large extent, the proposed model would use inputs that the Board expects preparers already need to gather and process in determining regulated rates (see analysis of the likely costs for preparers of implementing the proposals in paragraphs BC247–BC250).
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> BC205 The Board considered whether to propose a modified form of retrospective application from the beginning of the annual reporting period in which an entity first applies the proposed Standard (date of initial application) without restating comparative information, rather than full retrospective application from the beginning of the earliest annual reporting period presented (date of transition) with restatement of comparative information. Users of financial statements might have more

difficulty understanding reported financial performance if comparative information is not restated to make it comparable. The Board concluded that the resulting costs for users of financial statements in understanding incomparable information would outweigh the savings in costs for preparers. Therefore, the Board does not propose that modified form of retrospective application.

BC206 The Board found no need for disclosures about the effect of transition to the proposed Standard beyond those required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

[16] *Conceptual Framework*, paragraph 2.24.

Feedback

8. Some respondents who commented, including preparers across jurisdictions, agreed with the IASB's proposal for retrospective application, for the reasons explained in the Basis for Conclusions. Some users of financial statements who participated in outreach meetings also agreed with the IASB's proposal for retrospective application.

9. There were a few comments in support of the proposal for full retrospective application:

   (a) a few respondents, mainly preparers, said that the effects of a prospective application would be difficult to explain, particularly when accounting for long term regulatory assets and regulatory liabilities as they may affect financial statements over a long period. Explaining and understanding those financial effects over a long period may require considerable time and effort.

   (b) an accounting firm said that restatement of comparative information will be important because entities applying the final Standard may have previously applied significantly different requirements.

10. However, most respondents, across all stakeholder types, who commented did not support the proposal for full retrospective application. These respondents disagreed with the statement in paragraph BC204 of the Basis for Conclusions accompanying the Exposure Draft, that retrospective application would be unlikely to burden

preparers because, to a large extent, the proposed model would use inputs that the IASB expects preparers already need to gather and process in determining regulated rates. These respondents said that:

(a) the effort required to collect information at various points in time to make the judgements and estimates required, without using hindsight, would increase the cost and complexity of full retrospective application and, in some cases, would be impracticable.

(b) an entity may need more granular information than that currently used in setting regulated rates. Regulators use the regulatory capital base as an input in setting the rates. An entity's regulatory capital base is typically not componentised at the level required in IAS 16 *Property, Plant and Equipment*, cannot be readily disaggregated into its component parts, and cannot be reconciled with the carrying amount of property, plant and equipment. Moreover, the recovery period of the regulatory capital base and the useful lives of property, plant and equipment can be very long. Therefore, significant effort is required to calculate the carrying amount of a regulatory asset or regulatory liability arising because of the regulatory recovery period being longer or shorter than the useful life of an asset.

(c) an entity typically does not track information about items of income or expense included in profit or loss. Therefore, significant effort is required to calculate the carrying amount of a regulatory liability associated with regulatory returns on assets not yet available for use if the returns charged to customers were included in revenue during the construction of the assets.

11. Many respondents, mainly accounting firms, national standard-setters from Asia-Oceania and Europe, and European preparers, suggested the IASB permit transition approaches similar to those permitted by IFRS 15 *Revenue from Contracts with Customers* (see the appendix) or IFRS 16 *Leases* (paragraphs 38–39).

12. To reduce the cost and complexity of full retrospective transition, some respondents across jurisdictions and across stakeholder types (accounting firms, national standard-

setters and preparers) suggested the IASB provide an entity relief from full retrospective application.

13. Some respondents, mainly national standard-setters from Asia-Oceania, and preparers from Asia-Oceania, Europe and North America, suggested the IASB require prospective application of the final Standard from the beginning of the price control period (block of years for which regulated rates are set) that includes the date of initial application, or from another specified date.

Staff analysis and recommendations

14. This section is structured as follows:

    (a) general approach to transition (paragraphs 16–25);

    (b) full retrospective application (paragraphs 26–30);

    (c) prospective application (paragraphs 31–34); and

    (d) modified retrospective approach for entities already applying IFRS Accounting Standards (paragraphs 35–56).

15. This section focuses on entities that are already applying IFRS Accounting Standards. However, some of this analysis is also relevant for first-time adopters (paragraphs 57–71).

General approach to transition

16. The proposals in the Exposure Draft are consistent with the IASB's general approach to transition. Unless a new Accounting Standard or amendment includes specific transitional provisions, IAS 8 requires retrospective application of a change in an accounting policy to the extent practicable.[4]

17. Retrospective application of an accounting policy requires an entity to adjust the opening balance of each affected component of equity for the earliest prior period

[4] Paragraphs 19–27 of IAS 8.

presented and the other comparative amounts disclosed for each period presented as if the new accounting policy had always been applied.[5]

18. The *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) identifies comparability as an enhancing qualitative characteristic. Paragraph 2.24 of the *Conceptual Framework* states that information about an entity is more useful if it can be compared with similar information about the same entity for another period or another date. Requiring retrospective application of new accounting requirements helps achieve period to period comparability.

19. Users generally support retrospective application of new requirements and reclassification of comparative amounts because doing so results in comparable information and gives them a point of comparison for their analysis of an entity's results.

20. Despite the benefits of retrospective application, it can be burdensome for preparers because it can require information that spans long periods of time. If the information required for retrospective application does not exist it may be difficult to recreate. In the case of rate-regulated entities, respondents have said that retrospective application would be challenging because regulatory assets and regulatory liabilities can exist for long periods of time and the information required may not be available (paragraph 10).

21. Although IAS 8 requires retrospective application of new Accounting Standards, it acknowledges that impracticability can be a constraint on achieving comparability.

22. IAS 8 defines 'impracticable':

> Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:
>
> (a) the effects of the retrospective application or retrospective restatement are not determinable;

[5] Paragraph 22 of IAS 8.

(b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or

(c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

(i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and

(ii) would have been available when the financial statements for that prior period were authorised for issue from other information.

23. Paragraphs 50–52 of IAS 8 provide guidance on when retrospective application is deemed impracticable. Circumstances in which retrospective application may be impracticable include:

(a) when information needed to apply the policy retrospectively has not been collected and it is impracticable to recreate the information; and

(b) when it is difficult to make an estimate which reflects the circumstances that existed when the transaction, other event or condition occurred (that is, it is difficult to make an estimate without the use of hindsight).

24. Many IFRS Accounting Standards issued in recent years have transitional provisions that do not require the full restatement of *all* comparative information. The reasons include:

(a) cost and effort for preparers (for example, IFRS 16);[6]

(b) use of hindsight for assumptions and estimates (for example, IFRS 15); or

(c) a combination of both (a) and (b).

[6] Paragraph BC276 of the Basis for Conclusions accompanying IFRS 16.

25. Alternative transitional provisions that have been used include:

    (a) requiring/allowing the restatement of information for one comparative period only (for example, IFRS 10 *Consolidated Financial Statements*);

    (b) not requiring/allowing the restatement of comparative information; instead, an entity would recognise a catch-up adjustment in opening equity (for example, IFRS 15); and

    (c) requiring prospective application (for example, some IFRIC Interpretations and annual improvements).

Full retrospective application

26. Many respondents said that retrospective application of the proposals would involve undue cost or effort. These comments mainly focused on the proposals to account for:

    (a) regulatory assets and regulatory liabilities arising from differences between regulatory recovery period and assets' useful lives; and

    (b) regulatory liabilities arising from regulatory returns on assets not yet available for use included in regulated rates charged during the construction period.

27. Some respondents also said that retrospective application without the use of hindsight (paragraph 10) would be impracticable. They said that hindsight might be required, both for the proposals in paragraph 26 of this paper and for other proposals such as estimating the future cash flows of regulatory assets or regulatory liabilities relating to performance incentives.

28. The concerns regarding full retrospective application (paragraphs 26–27) are similar to the concerns that led the IASB not to require full retrospective application of IFRS 16. We think that the concerns in paragraph 26 were mostly raised by entities whose regulatory capital base has no direct relationship with their property, plant and equipment. We think the introduction of the direct (no direct) relationship concept would have partially addressed the concerns raised by these entities. Despite the introduction of the direct (no direct) relationship concept, we think that:

(a) entities whose regulatory capital base has a direct relationship with their property, plant and equipment would have some difficulties in applying the proposals in paragraph 26 retrospectively as they may not have the information needed; and

(b) all entities, regardless of the relationship between their regulatory capital base and their property, plant and equipment, may have difficulties in applying the final Standard without the use of hindsight (paragraph 27).

29. The analysis of these difficulties is addressed in Agenda Paper 9D which proposes transition reliefs.

30. Based on respondents' feedback about full retrospective application and on the difficulties identified in paragraph 28, we think that entities should be permitted, but not required, to apply full retrospective application.

Prospective application

31. A few respondents suggested requiring application from a specified date or from the start of the regulatory period in which the entity applies the final Standard (paragraph 13). They suggested prospective application for some or all of the proposals.

32. We do not think that prospective application of the final Standard is appropriate. Prospective application would be the least costly transition approach for preparers to apply, but the information provided would not be as useful for users. Some regulatory assets and regulatory liabilities can exist for long periods and prospective application would give only a partial picture of the effect of the new requirements. Prospective application would capture (in profit or loss) the effect of changes in regulatory assets or regulatory liabilities during the reporting period in which an entity applies the final Standard. It would not capture (in the statement of financial position) the cumulative effect of applying the requirements by recognising the regulatory assets and regulatory liabilities that existed prior to that point.

33. The arguments in paragraph 32 are similar to those considered by the IASB when it decided not to permit prospective application of IFRS 16 by lessees.[7]

34. Based on the analysis in paragraphs 32–33 we do not think that entities should be permitted to apply the final Standard prospectively.

Modified retrospective approach

35. We think it is appropriate to consider a modified retrospective approach for the final Standard because:

    (a) full retrospective application could be impracticable for many entities—either because entities would not have the information needed to apply the proposals retrospectively (paragraph 28(a)) or because it would be difficult for entities to apply the proposals without using hindsight (paragraph 28(b)); and

    (b) we do not think prospective application is appropriate (paragraphs 31–34).

36. This section is structured as follows:

    (a) modified transition approaches in IFRS 16 and IFRS 17 (paragraphs 37–43);

    (b) should an entity be required to justify the impracticability of full retrospective application? (paragraph 44);

    (c) how important are comparatives? (paragraphs 45–49); and

    (d) staff conclusions and recommendations (paragraphs 50–56).

Modified transition approaches in IFRS 16 and IFRS 17

37. We have focused on the transition approaches in IFRS 16 (paragraphs 38–39) and IFRS 17 (paragraphs 40–41) because:

    (a) they are the most recent Accounting Standards dealing with recognition and measurement and they both permit the use of modified retrospective approaches in particular situations.

[7] Paragraph BC277 of the Basis for Conclusions accompanying IFRS 16.

(b) the transition provisions of IFRS 16 are broadly similar to those of IFRS 15, whose information the final Standard aims to supplement. The appendix provides a summary of the transition requirements in other IFRS Accounting Standards.

(c) similar to IFRS 17, there is diversity in how entities that will be applying the final Standard are currently accounting for regulatory balances (paragraph 45).

38. IFRS 16 permits lessees to use a form of modified retrospective application, referred to as the 'cumulative catch-up transition method', which is broadly consistent with transition requirements in IFRS 15 and in IFRS 9 *Financial Instruments*.[8] An entity can elect to use the modified retrospective approach without having to prove that full retrospective application is impracticable. Under the modified retrospective approach in IFRS 16 a lessee:

(a) is not required to restate comparative information;

(b) recognises the cumulative effect of initially applying IFRS 16 at the date of initial application (being the first day of the annual reporting period in which a lessee first applies IFRS 16) rather than the date of transition;

(c) can make use of practical expedients, including the use of hindsight;[9] and

(d) provides disclosures to help users of financial statements understand the effect of applying IFRS 16 for the first time.

39. When the IASB developed the Exposure Draft *Regulatory Assets and Regulatory Liabilities*, the IASB considered and rejected a form of modified retrospective application similar to that permitted by IFRS 16. At that time the IASB was of the view that the costs for users to understand information that is not comparable would outweigh the cost savings for preparers.[10] Feedback from respondents has challenged this view. Some respondents have said that the costs for preparers are likely to be

[8] Agenda Paper 3C discussed at the February 2015 IASB meeting.

[9] Paragraphs C5(b), C7 and C10(e) of IFRS 16.

[10] See paragraph BC205 of the Basis for Conclusions accompanying the Exposure Draft.

higher than the IASB expected and that aspects of retrospective application might be impracticable. Many respondents suggested considering a transition approach similar to IFRS 16. We have therefore reconsidered the approach permitted by IFRS 16 (see Table 1).

40. The objective of the modified retrospective approach in IFRS 17 is to achieve the closest outcome to retrospective application as possible, using reasonable and supportable information available without undue cost or effort. An entity may apply the modified retrospective approach in IFRS 17 to a group of insurance contracts only if full retrospective application would be impracticable. The focus on approximating the outcome of full retrospective application reflected requests for this type of approach from some preparers as it allowed preparers that had much, but not all, of the information required for full retrospective application to make use of that information.[11]

41. IFRS 17 requires entities to present restated comparative information for the period immediately before the date of initial application of IFRS 17 (but not for any periods earlier than that). The requirement to present comparative information reflected the IASB's desire to provide the most useful information to users of financial statements by allowing comparisons among entities and the use of trend information.[12]

42. Table 1 outlines the pros and cons of the modified retrospective approaches in IFRS 16 and IFRS 17 (including the comparative requirements) and considers the relevance of these arguments for the final Standard.

Table 1—Pros and cons of transition approaches	
Pros IFRS 16 approach	**Cons IFRS 16 approach**
A smoother and less costly transition for entities. It is easier for an entity to elect to use this approach than the modified retrospective	No comparable information in the first year of application. The lack of comparable information on initial application of IFRS 16 may have been

[11] Agenda Paper 2B discussed at the February 2019 IASB meeting.
[12] Paragraph BC397 of the Basis for Conclusions accompanying IFRS 17.

Table 1—Pros and cons of transition approaches	
approach permitted by IFRS 17. An entity does not have to determine that full retrospective application is impracticable.	mitigated by the availability of disclosures in IAS 17 *Leases*. Some users have said that the IAS 17 lease commitment disclosures for past periods provided a reasonable basis for determining the significance of lease-related transactions during the transition period. In the absence of these disclosures, users may have wanted full retrospective application of IFRS 16.[13]
Pros IFRS 17 approach	**Cons IFRS 17 approach**
This approach results in a closer approximation to full retrospective application than the modified retrospective approach in IFRS 16. The transition options in IFRS 17 responded to requests from some preparers to develop approaches to transition that approximate the outcome of full retrospective application. In the case of rate-regulated entities, there have been no requests from respondents to the Exposure Draft to develop approaches to transition that approximate the outcome of full retrospective application.	A few respondents to the Exposure Draft *Amendments to IFRS 17* considered that the modified retrospective approach in IFRS 17 is too restrictive.[14] This approach requires more effort and time from preparers than the approach in IFRS 16. When the IASB sought feedback on the deferral of the effective date of IFRS 17 in 2019, a few respondents said that an alternative to deferring the effective date would be to permit entities not to restate comparatives.[15] Requiring an entity to justify the impracticability of applying the final Standard retrospectively makes the transition requirements more complex and increases costs for preparers.

43. This comparison of the transition approaches in IFRS 16 and IFRS 17 highlights two questions that would need to be considered before recommending the use of a modified retrospective approach in the final Standard:

(a) should full retrospective application be required unless it is impracticable? (paragraph 44); and

[13] AASB MASB Research Report *A Joint AASB-MASB Research Report Transition Relief and Ongoing Practical Expedients in IFRS 16* Leases, October 2022

[14] Agenda Paper 2C discussed at the November 2019 IASB meeting.

[15] Agenda Paper 2B discussed at the November 2019 IASB meeting.

(b) how important are restated comparatives? (paragraphs 45–49).

Should full retrospective application be required unless it is impracticable?

44. We do not think an entity should be required to determine that full retrospective application is impracticable to be permitted to apply a modified retrospective approach. Our reasons are:

(a) concerns about the impracticability of full retrospective application could be widespread. For example, there are some circumstances when entities would need to use hindsight to apply the requirements retrospectively (paragraph 27 and Agenda Paper 9D);

(b) requiring an entity to determine that full retrospective application is impracticable could make transition more complex and costly and could limit the benefits of the transition reliefs. In order to determine that full retrospective application is impracticable, an entity would need to make every reasonable effort for obtaining the data necessary to calculate the initial transition values using the full retrospective application; and

(c) the circumstances surrounding the adoption of IFRS 17 and the final Standard differ. Some insurers requested a transition approach approximating full retrospective application (paragraph 40). We have not received requests for this type of transition approach for the final Standard.

How important are restated comparatives?

45. The effect of applying the final Standard, and possibly the importance of restated comparatives, will depend on an entity's current accounting policies. We have therefore considered the importance of restated comparatives for different groups of entities. The groups of entities currently applying IFRS Accounting Standards that would have regulatory assets and regulatory liabilities in the scope of the final Standard are:

(a) entities that currently report regulatory balances—this includes:

(i) entities applying IFRS 14 *Regulatory Deferral Accounts*—IFRS 14 permits first-time adopters of IFRS Accounting Standards that already recognised regulatory deferral account balances in their financial statements in accordance with their previous generally accepted accounting principles (GAAP) to continue doing so, thus 'grandfathering' the outcome of their previous GAAP requirements dealing with recognition and measurement until the final Standard is published. Many of these entities currently recognise regulatory balances in accordance with US GAAP or a local GAAP based on US GAAP.

(ii) entities that currently recognise regulatory balances in accordance with accounting policies they have developed in accordance with IAS 8.

(b) entities that currently do not report regulatory balances—these entities may have transitioned to IFRS Accounting Standards before IFRS 14 was published, decided not to adopt IFRS 14, or not been eligible to apply IFRS 14.

46. We think there will be fewer entities in group (a) than group (b) in paragraph 45.

47. For entities in group (a), our assessment is that the application of the final Standard may not result in outcomes that are significantly different to the outcomes they would get when applying their current accounting policies. Many entities applying IFRS 14 would currently be applying US GAAP or a local GAAP based on US GAAP and we think that the final Standard will result in similar outcomes to US GAAP for such entities.[16] Entities recognising regulatory balances but not applying IFRS 14 will have developed their accounting policies by reference to the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial*

[16] Although the requirements of the final Standard will differ from US GAAP, the outcomes are expected to be similar. For a high-level summary of the key differences between the Exposure Draft and US GAAP see Agenda Paper 9F discussed at the June 2019 IASB meeting. The IASB's tentative decisions in the redeliberations on the Exposure Draft would not have affected that comparison significantly.

Statements.[17] Although the definitions of assets and liabilities have since been revised, we think the factors considered in concluding that regulatory balances are assets and liabilities mean that many of the regulatory balances currently recognised will also meet the definitions of regulatory assets and regulatory liabilities. It is possible to argue that the impact of the final Standard on entities in group (a) are largely measurement changes and that users may be less concerned about not having access to restated comparatives than if the changes affected recognition.

48. For entities in group (b), restatement of comparatives would be more useful for users. However, for these entities, users may have placed less reliance on the information in financial statements and more reliance on other sources of information such as regulatory reports. This reliance on other sources of information may reduce the need for comparative information. To counter this argument, we note that regulatory reports are commonly used by specialised or sophisticated users, the information in regulatory reports varies across jurisdictions and, in some cases, they may not be widely available.

49. We have also considered arguments that would support not providing comparative information:

(a) restated comparative information can take longer to prepare and cost more (paragraph 20). We think some of the concerns about the time and cost of providing comparative information will be addressed by the transition reliefs discussed in Agenda Paper 9D.

(b) if comparatives are not required, the transition period can sometimes be shorter. However, as discussed in Agenda Paper 9F we do not recommend a short transition period.

[17] A temporary exception in paragraph 54G of IAS 8 required entities developing an accounting policy for regulatory account balances after considering paragraph 11 of IAS 8 to refer to the *Framework for the Preparation and Presentation of Financial Statements* rather than the 2018 *Conceptual Framework*. This temporary exception was intended to prevent unhelpful and unnecessary disruption for users of financial statements and entities pending the development of the final Standard. As discussed at the IASB's May 2024 meeting, the temporary exception will be removed when the final Standard is issued.

(c) lack of comparable comparative information will only affect a relatively short period of time—comparable comparative information will be available once all entities have applied the final Standard for two annual reporting periods. We do not think this argument is persuasive as it could be applied to any Accounting Standard, most of which require restated comparative information.

(d) disclosures can, to some extent, compensate for the lack of comparability. We have however dismissed this option because we think the cost of producing disclosures that would compensate for the lack of comparability would be as costly as presenting restated comparative information.

Staff conclusions and recommendations

50. Having considered the analysis in paragraphs 44–49, we think that entities should be permitted to apply the Standard retrospectively in accordance with IAS 8, or using a modified retrospective approach in which comparatives are restated for the first year immediately preceding the year of initial application. We think that such an approach would give users many of the benefits of full retrospective application while responding to respondents' concerns about the cost and difficulty of full retrospective application.

51. The approach we are recommending is similar to the modified retrospective approach in IFRS 17, in that it would require restated comparative information for one year. However, as mentioned in paragraph 44, we do not think an entity should be required to determine that full retrospective application is impracticable before it is permitted to apply a modified retrospective approach.

52. Although the approach we recommend would require restated comparative information for only one year, we think entities should be permitted to present additional comparative information (adjusted or unadjusted) for earlier periods presented (for example, they may wish to do so or be required by legislation to do so).

53. We think an entity presenting additional unadjusted comparative information should be required to identify that comparative information as unadjusted and disclose that comparative information has been prepared on a different basis, explaining that basis.

54. The IASB has provided similar transitional relief for other IFRS Accounting Standards.[18] The recommendation for additional comparative information in paragraph 52 are also aligned with the transition requirements in IFRS 17.[19] We think these recommendations are appropriate regardless of whether an entity elects to apply the final Standard retrospectively or using a modified retrospective approach which includes transition reliefs.

55. We recommend that the final Accounting Standard:

    (a) permit an entity already applying IFRS Accounting Standards to elect to apply the final Standard retrospectively either in accordance with IAS 8 or by using a modified retrospective approach;

    (b) regardless of which approach an entity elects to use:

        (i) require an entity to restate comparative information for the first year immediately preceding the year of initial application;

        (ii) permit an entity to present unadjusted comparative information for any earlier periods presented and, if it does so, require that it identify that comparative information as unadjusted and disclose that comparative information has been prepared on a different basis, explaining that basis; and

        (iii) permit an entity to present adjusted comparative information applying the final Standard for any earlier periods presented.

56. Agenda Paper 9D considers possible transition reliefs for entities already applying IFRS Accounting Standards and first-time adopters. It also considers the disclosures that should be made by any entity making use of transition reliefs.

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[18] Similar transitional reliefs are included in paragraph 6A of IFRS 10 *Consolidated Financial Statements* and paragraph C13A of IFRS 11 *Joint Arrangements*.

[19] Paragraphs C25 and C27 of IFRS 17.

Question for the IASB
1. Does the IASB agree with the recommendations in paragraph 55?

First-time adoption

57. This section is structured as follows:

    (a) proposals in the Exposure Draft (paragraph 58);

    (b) feedback (paragraphs 59–61); and

    (c) staff analysis and recommendations (paragraphs 62–71).

Proposals in the Exposure Draft

58. The Exposure Draft proposes relatively minor changes to IFRS 1 (see Table 2). The Exposure Draft does not propose to change:

    (a) the general requirement for retrospective application in IFRS 1;

    (b) the requirements for comparative information in paragraph 21 of IFRS 1; or

    (c) the 'date of transition to IFRSs' as defined in IFRS 1.

Table 2—Exposure Draft proposals—exceptions and exemptions in IFRS 1
IFRS 1 paragraphs 1–40 An entity applying IFRS 1 applies all Standards retrospectively, apart from the mandatory exceptions to full retrospective application set out in paragraphs 14–17 and Appendix B, and the optional exemptions in Appendices C–E. An entity may elect to use one or more of the optional exemptions. Paragraph 21 of IFRS 1 sets out the requirements for comparative information. 21 An entity's first IFRS financial statements shall include at least three statements of financial position, two statements of profit or loss and other comprehensive income, two separate statements of profit or loss (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information for all statements presented. The Exposure Draft proposes **to delete paragraph 39V** of IFRS 1. Paragraph 39V is an effective date paragraph that is no longer required (see the explanation in the last row of this table).

Table 2—Exposure Draft proposals—exceptions and exemptions in IFRS 1

IFRS 1 Appendix A Defined terms

The Exposure Draft does not propose any changes to the defined terms in IFRS 1. The defined term *date of transition to IFRSs* is shown below.

date of transition to IFRSs	The beginning of the earliest period for which an entity presents full comparative information under IFRSs in its first IFRS financial statements.

IFRS 1 Appendix B Exceptions to the retrospective application of other IFRSs

The Exposure Draft does not propose any changes to Appendix B of IFRS 1.

The Exposure Draft therefore proposes that first-time adopters apply the final Standard retrospectively.

IFRS 1 Appendix C Exemptions for business combinations

The Exposure Draft proposes to **amend the exemption** from retrospective application of IFRS 3 *Business Combinations* to past business combinations in Appendix C by specifying the treatment of goodwill-related regulatory balances that do not qualify for recognition as regulatory assets.

Agenda Paper 9E considers feedback on this proposal.

IFRS 1 Appendix D Exemptions from other IFRSs

IFRS 1 permits an entity to use certain amounts as the deemed cost of an item of property, plant or equipment. Paragraph D8B, which was added in 2010 and amended in 2014 by IFRS 14 *Regulatory Deferral Accounts*, permits the use of a deemed cost exemption by entities with operations subject to rate regulation.

The Exposure Draft proposes to **amend paragraph D8B** to align the terminology and requirements with the final Standard (as shown below).

Deemed cost

…

D8B Some entities hold items of property, plant and equipment, right-of-use assets or intangible assets that are used, or were previously used, in operations subject to a regulatory agreement that is capable of creating regulatory assets or regulatory liabilities within the scope of [draft] IFRS X *Regulatory Assets and Regulatory Liabilities* ~~rate regulation~~. The carrying amount of such items might include amounts that were determined under previous GAAP but do not qualify for capitalisation in accordance with IFRSs. If this is the case, a first-time adopter may elect to use the previous GAAP carrying amount of such an item at the date of transition to IFRSs as deemed cost. If an entity applies this exemption to an item, it need not apply it to all items. At the date of transition to IFRSs, an entity shall test for impairment in accordance with IAS 36 each item for which this exemption is used. ~~For the purposes of this paragraph, operations are subject to rate regulation if they are governed by a framework for establishing the prices that can be charged to customers for goods or services~~

Table 2—Exposure Draft proposals—exceptions and exemptions in IFRS 1
~~and that framework is subject to oversight and/or approval by a rate regulator (as defined in IFRS 14 *Regulatory Deferral Accounts*).~~
The Exposure Draft also proposes to **delete paragraph 39V** of IFRS 1 which sets out the effective date of the IFRS 14 amendment to paragraph D8B.

Feedback

59. The Exposure Draft did not request separate feedback on the proposals for first-time adopters. The feedback on retrospective application from all respondents, including first-time adopters, is included in paragraphs 8–13 of this paper. We think that feedback is generally relevant for first-time adopters. Overall, most respondents did not support full retrospective application.

60. An accounting firm suggested the IASB consider whether any additional amendments to IFRS 1 are necessary for an entity that becomes a first-time adopter at the same time as it initially applies the final Standard. Agenda Paper 9D considers transition reliefs for first-time adopters.

61. Some respondents requested that, when setting the effective date for the final Standard, the IASB consider the difficulty of retrospective application by first-time adopters. Agenda Paper 9F discusses this matter.

Staff analysis and recommendations

62. This section is structured as follows:

    (a) modified retrospective application on first-time adoption (paragraphs 63–69);

    (b) proposed amendments to the deemed cost exemption in paragraph D8B of IFRS 1 (paragraph 70); and

    (c) staff recommendations (paragraph 71).

Modified retrospective application on first-time adoption

63. This group would encompass entities that have regulatory assets and regulatory liabilities in the scope of the final Standard and are first-time adopters of IFRS Accounting Standards in the period when they apply the final Standard for the first time.

64. Amongst first-time adopters there will be entities that have been able to defer the adoption of IFRS Accounting Standards until a final Standard is issued. For example, Canadian Securities Administrators permit certain rate-regulated entities to apply US GAAP in place of IFRS Accounting Standards for a stipulated period of time (Agenda Paper 9F).

65. The Due Process Handbook requires that the IASB consider how first-time adopters of IFRS Accounting Standards should apply an Accounting Standard and whether any amendments are needed to IFRS 1.[20]

66. Although IFRS 1 usually requires retrospective application, we think it is appropriate to permit a modified retrospective approach for first-time adopters on the grounds that full retrospective application could be impracticable. Our reasons are similar to those provided in this paper for entities already applying IFRS Accounting Standards (paragraphs 26–29).

67. Paragraph 21 of IFRS 1 sets out the requirements for comparative information in an entity's first IFRS financial statements including three statements of financial position and two statements of profit or loss and other comprehensive income (Table 2).

68. A first-time adopter may also choose to present additional comparative information, presented in accordance with previous GAAP, to help a user understand the effect of the transition to IFRSs. That additional comparative information does not have to be restated.[21]

[20] Paragraph 6.36 of the Due Process Handbook.

[21] Paragraph 22 of IFRS 1.

69. We do not think that first-time adopters should be given relief from the requirements in IFRS 1 to present comparative information. Entities already applying IFRS Accounting Standards are sometimes permitted not to present a third statement of financial position following a change in an accounting policy. However, the requirements in paragraph 21 of IFRS 1 reflect the IASB's view that a first-time adopter should not be exempted from presenting a third statement of financial position because it might not have presented this information previously on a basis consistent with IFRSs.[22] We think this reasoning is also relevant for first-time adopters applying the final Standard. For a first-time adopter, the date of initial application of the final Standard should therefore be the date of transition to IFRSs, as defined in IFRS 1 (being the beginning of the earliest comparative period presented in the first IFRS financial statements).

Proposed amendments to the deemed cost exemption in paragraph D8B of IFRS 1

70. We think the proposed amendments to paragraphs D8B and 39V of IFRS 1 in Table 2 remain appropriate and should be retained in the final Standard.

Staff recommendations

71. We recommend that the final Accounting Standard:

(a) amend IFRS 1 to permit a first-time adopter to use a modified retrospective approach in applying the final Standard;[23]

(b) retain the proposal that a first-time adopter present comparative information in accordance with the requirements in IFRS 1 (and the definition of the date of transition to IFRSs in IFRS 1); and

[22] Paragraph BC89B of the Basis for Conclusions accompanying IFRS 1 and paragraph 37 of IFRS 18.

[23] Agenda Paper 9D considers transition reliefs for first-time adopters and related disclosure requirements. Agenda Paper 9E considers the proposed amendment to the exemption in Appendix C of IFRS 1. Appendix C of IFRS 1 permits first-time adopters to elect not to apply IFRS 3 *Business Combinations* retrospectively to past business combinations.

(c) retain the proposals to amend IFRS 1 by aligning the terminology and requirements in the deemed cost exemption in paragraph D8B of IFRS 1 with the final Standard, and by deleting paragraph 39V of IFRS 1.

Question for the IASB
2. Does the IASB agree with the staff recommendations in paragraph 71?

Appendix—Application and transitional provisions[24]

A1. This appendix summarises the application and transitional provisions in IFRS Accounting Standards issued from 2005 until 2014. Application and transitional provisions of IFRS 16 and IFRS 17 are discussed in the body of the paper.

Standard	IAS 8 or transitional provisions
IFRS 7 *Financial Instruments: Disclosures*	IAS 8 retrospective application.
IFRS 8 *Operating Segments*	IAS 8 retrospective application.
IFRS 9 *Financial Instruments*	Transitional provisions: • IFRS 9 does not apply to financial assets that have already been derecognised at the date of initial application; • IAS 8 retrospective application with restatement for those assets, if it is possible without the use of hindsight; • there are exceptions to retrospective application; • if restatements require the use of hindsight, no restatement of comparatives with an adjustment to the opening equity; and • hedge accounting is applied prospectively.
IFRS 10 *Consolidated Financial Statements*	Transitional provisions and IAS 8 retrospective application: • assess control over existing investees at the date of initial application; • allowed to restate comparative amounts for the immediately preceding year only; • relief by limiting quantitative disclosures required by IAS 8 paragraph 28(f) only for the immediately preceding year;[1] • specific impracticability guidance; and • choice of which version of IFRS 3 and IAS 27 to use. [1] In other words, an entity does not need to disclose quantitative information required by IAS 8.28(f) for the current period.
IFRS 11 *Joint Arrangements*	Transitional provisions and IAS 8 retrospective application: • allowed to restate comparative amounts for the immediately preceding year only; and • relief by limiting quantitative disclosures required by IAS 8 paragraph 28(f) only for the immediately preceding year.

[24] This summary is drawn from Agenda Paper 11E *Guidance issued after 2005: high level summary of application and transitional provisions*, discussed at the June 2015 IASB meeting.

Standard	IAS 8 or transitional provisions
IFRS 12 *Disclosure of Interests in Other Entities*	Transitional provisions: • restate comparative amounts for the immediately preceding year only.
IAS 27 *Separate Financial Statements* (2011)	IAS 8 retrospective application • the requirements are generally consistent with the previous Standard; consequently, restatements are unlikely.
IAS 28 *Investments in Associates and Joint Ventures* (2011)	Transitional provisions: • IFRS 11 includes specific provisions for joint ventures that were previously accounted for using proportionate consolidation.
IFRS 13 *Fair Value Measurement*	Prospective application because changes in fair value measurement are considered to be changes in accounting estimates.
IFRS 14 *Regulatory Deferral Accounts*	IAS 8 retrospective application.
IFRS 15 *Revenue from Contracts with Customers*	Transitional provisions and IAS 8 retrospective application: • there are practical expedients for retrospective application. For example: o For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods. • a 'modified' approach (ie not restate comparatives, with a catch-up adjustment to the opening balance of retained earnings) is allowed. An entity applying this approach provides disclosures in the first year of application which explain the effects of IFRS 15 on each relevant line item in the financial statements. • under the modified approach, IFRS 15 applies to contracts that are not yet completed as of the initial application date. • relief by limiting quantitative disclosures required by IAS 8 paragraph 28(f) for the immediately preceding year if retrospective application is applied.