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cutting through complexity

Adopting the consolidation suite of standards

Simplifications provide relief

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IN THE HEADLINES

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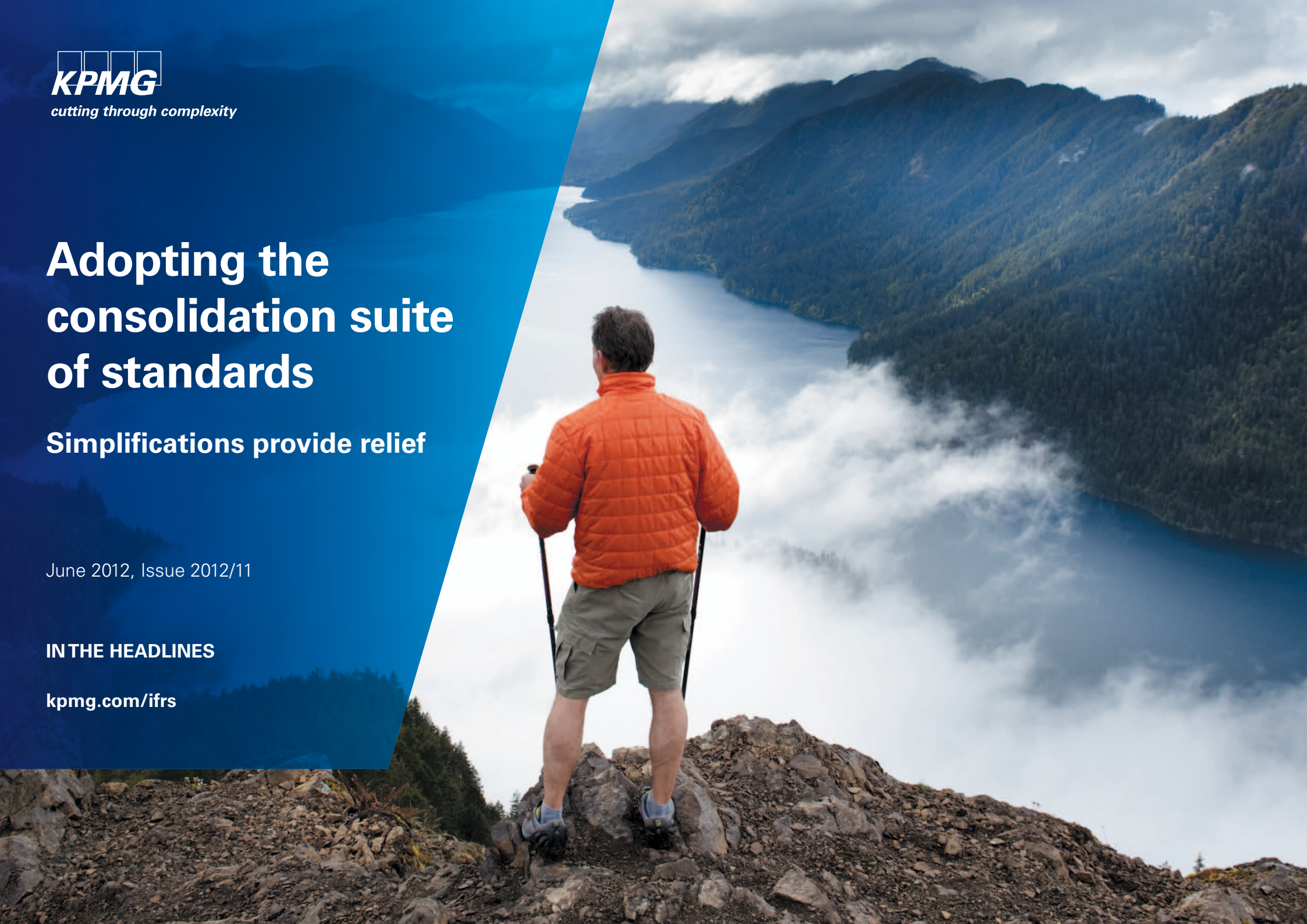

> “The amendments simplify the process of adopting IFRSs 10 and 11, and provide relief from the disclosures in respect of unconsolidated structured entities – disclosures that could have been onerous to make retrospectively.”

– Paul Munter, KPMG’s global IFRS business combinations and consolidation leader

Extent of relief depends on extent of comparatives

IFRS 10 *Consolidated Financial Statements,* IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* contain a general principle of retrospective application on adoption (annual periods beginning on or after 1 January 2013).

Depending on the extent of comparative information provided in the financial statements, the amendments simplify the transition and provide additional relief from disclosures that could have been onerous.

One year of comparatives provided (required by IFRS)	Additional comparatives provided
Some relief from restatement of comparatives	More extensive relief from restatement of comparatives
Some relief from disclosures in respect of a change in accounting policy	Some relief from disclosures in respect of a change in accounting policy
Relief from IFRS 12 disclosures in respect of unconsolidated structured entities	Some relief from all IFRS 12 disclosures

Requirement to restate comparatives limited to one year

The amendments limit the restatement of comparatives to the immediately preceding period; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged.

In addition, the date of initial application is now defined in IFRS 10 as the beginning of the annual reporting period in which the standard is applied for the first time. At this date, an entity tests whether there is a change in the consolidation conclusion for its investees.

If an entity with a calendar year end does not early adopt IFRS 10, then the date of initial application is 1 January 2013. If the consolidation conclusion for an investee remains unchanged at that date, then no adjustments to the previous accounting are required. This avoids the need to consolidate and then deconsolidate a controlling interest that was disposed of in the comparative period, for example.

The impact of consolidation/deconsolidation on the adoption of IFRS 10 is explained on the adjacent page.

Change in policy disclosures not required in current year

Disclosure of the impact of the change in accounting policy is only required for the period immediately preceding the date of adoption – i.e. for 2012 for an entity with a calendar year end that does not early adopt the standards.

This relief means that an entity is not required to keep additional accounting records in the year of adopting the standards – e.g. as if an investee had not been consolidated – in order to collect data to disclose the impact of adopting the standards on the current period.

Prospective disclosures for unconsolidated structured entities

In addition to limiting the comparative information to be disclosed under IFRS 12, all entities will benefit from further relief from the disclosures in respect of unconsolidated structured entities.

These disclosures may be made prospectively from the date of initial application – i.e. from 1 January 2013 for an entity with a calendar year end that does not early adopt the standards.

Investee consolidated upon adoption of IFRS 10: comparative information

An investee is consolidated for the first time on transition as follows.

1. Determine date at which investor obtained control over investee per IFRS 10.

Investee is a business

2. Measure net assets and NCI as if acquisition accounting had been applied at that date.

Investee not a business

2. Measure net assets and NCI as if investee consolidated from that date. Use IFRS 3 for initial measurement, but do not recognise any goodwill.

3. Roll forward these values to the beginning of the period immediately preceding the year of adoption.

4. Difference between (3) and carrying amount of investment is recognised in equity at the beginning of the immediately preceding period. Additional comparatives may be left unadjusted.

- **If step 2 is impracticable, then the deemed acquisition date is the beginning of the earliest period for which step 2 is practicable.**
- **Step 2 is then applied at the deemed acquisition date. The immediately preceding period is restated unless the deemed acquisition date is the beginning of the current period.**

Example

Parent P has an involvement in Investee S (a business), which is not consolidated at present. P has a 31 December 2013 year end and presents comparative information for 2012 (as required by IFRS) and, in addition, voluntarily presents comparative information for 2011. As at 1 January 2013, the date of initial application of IFRS 10, P concludes that S should be consolidated.

P then follows these steps.

1) It determines that if IFRS 10 had been effective, then it would have obtained control of S on 16 May 2007.
2) P chooses to apply IFRS 3 (2008) *Business Combinations*. Because control of S was obtained in 2007, the amendments allow P a choice of applying IFRS 3 (2004) or IFRS 3 (2008). P measures S's assets, liabilities and non-controlling interests (NCI) according to IFRS 3 (2008) and determines goodwill as of 16 May 2007.
3) Next, P rolls these values forward to determine the carrying amounts of S's net assets and NCI as of 1 January 2012, as if S had been consolidated since 16 May 2007.
4) The difference between the newly determined carrying amounts at 1 January 2012 and the existing carrying amount of the investment in S at 1 January 2012 is recognised in equity at the beginning of 2012.

P chooses not to make changes to the 2011 comparatives, and instead discloses the lack of comparability with 2012 and 2013.

Investee deconsolidated upon adoption of IFRS 10: comparative information

An investee is deconsolidated on transition as follows.

1. Determine date at which investor would have stopped consolidating investee per IFRS 10.
2. Measure interest in investee at amount at which it would have been measured had IFRS 10 been effective at that date.
3. Roll forward this value to the beginning of the period immediately preceding the year of adoption.
4. Difference between (3) and the previously recognised net assets and NCI is recognised in equity at the beginning of the immediately preceding period. Additional comparatives may be left unadjusted.

- **If step 2 is impracticable, then the investor applies IFRS 10 for a loss of control at the beginning of the earliest period for which it is practicable, and applies step 3 at that date.**
- **The immediately preceding period is restated unless the interest in the investee is measured at the beginning of the current period.**

Example

Parent P has an involvement in Investee D, which is consolidated at present. P has a 31 December 2013 year end and presents comparative information for 2012 (as required by IFRS) and, in addition, voluntarily presents comparative information for 2011. As at 1 January 2013, the date of initial application of IFRS 10, P concludes that S should be deconsolidated.

P then follows these steps.

1) It determines that if IFRS 10 had been effective, then it would have lost control of D on 1 July 2009.
2) P measures its interest in D as of 1 July 2009 in accordance with IFRS 10.
3) Next, P rolls that value forward to 1 January 2012 in accordance with the relevant IFRS – e.g. IFRS 9 *Financial Instruments*.
4) The difference between the newly determined carrying amount of the investment in S at 1 January 2012 and the existing consolidated carrying amounts at 1 January 2012 is recognised in equity at that date.

P chooses not to make changes to the 2011 comparatives, and instead discloses the lack of comparability with 2012 and 2013.

Basic facts

In May 2011, the IASB issued a new suite of consolidation and related standards. Three of these standards are affected by the amendments.

- IFRS 10 introduces a new approach to determining which investees should be consolidated. Our publication *First Impressions: Consolidated financial statements* discusses this new approach in detail.
- IFRS 11 introduces a new approach to classifying joint arrangements (formerly joint ventures) and requires the equity method for joint ventures (formerly jointly controlled entities). Our publication *First Impressions: Joint arrangements* discusses this new approach in detail.
- IFRS 12 introduces new disclosures, most notably in respect of unconsolidated structured entities. These disclosures are discussed in the above publication on IFRS 10.

The standards are effective for annual periods beginning on or after 1 January 2013. Early adoption is permitted as long as the complete set of standards is adopted at the same time.

The subject of this publication, *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)*, was issued by the IASB on 28 June 2012. The effective date is annual periods beginning on or after 1 January 2013, matching the above standards. Early adoption of the amendments is required in the event that those standards are adopted early.

Find out more

For more information on the amendments, please go to the IASB Press Release or speak to your usual KPMG contact.

Timeline[1]

1 January 2012:
- Consolidation adjustments are made retrospectively but without restatement of any earlier comparative periods
- IFRS 12 disclosures commence, except in respect of unconsolidated structured entities

28 June 2012:
Amendments published

1 January 2013:
- Date of initial application of IFRSs 10–12, at which point the consolidation conclusion is tested
- IFRS 12 disclosures in respect of unconsolidated structured entities commence

31 December 2013:
First annual financial statements in which IFRSs 10–12 apply

1 Assumes a 31 December year end

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