IFRS 1 First-time Adoption of International Financial Reporting Standards

Overview

Earlier position was that if a subsidiary becomes a first-time adopter of IFRS subsequent to adoption of same by its parent, the subsidiary may, in its financial statements, measure its assets and liabilities at either the carrying amounts that would be included in the parent's consolidated financial statements or the carrying amounts required by specific IFRS, based on the subsidiary's date of transition to IFRSs.

Now, the Board has proposed to measure cumulative translation differences also using the amounts reported by the parent, based on the parent's date of transition to IFRS, in addition to assets and liabilities.

The similar option is also available for Joint Ventures as well as Associates.

Comments

The proposed amendment shall have the effect of reducing the time involved in transition to IFRS for subsidiaries where it becomes first time adopter subsequent to adoption by its parent.

Similar option can also be provided for other components of equity. The Board has considered the option of extending similar exemption to it but not implemented as the objective can be achieved by other alternatives. We believe the said option will bring certainty and shall involve lesser efforts on the part to company to achieve result by taking base which has been already analysed for parent resulting in reduction of duplication of efforts.

IFRS 9 Financial Instruments

Overview

When there is modification or exchange of financial liability, there arises new financial liability (i.e. modified financial liability with some or substantial different terms) in place of existing financial liability. For determining whether to derecognise a financial liability that has been modified or exchanged, an entity is required to assess whether the terms are substantially different. In assessing the same entity is required to carry out '10 per cent' test *i.e.* whether the discounted present value of the cash flows under the new terms including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If 10 percent test Is fulfilled, the same shall conclude that the terms are substantially different.

The Board in such test have incorporated net fees to be taken into account. However, the same was not clarified which has now been clarified to be included in the '10 per cent' test for de-recognition of financial liabilities.

Comments

The amendment made is clarificatory in nature. Nevertheless, we suggest, if possible it may be thought to include example/examples to help stakeholders understand the same in better way.

IFRS 16 Leases – No comments

IAS 41 Agriculture – No comments

Note: The views/comments above are personal views and should not be associated or construed as views of Baroda Branch or any organisation. These views have been formed on the basis of Exposure draft and considerations to the best of our knowledge and understanding.