International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

**Grant Thornton International Ltd**
Grant Thornton House
22 Melton Street
London NW1 2EP

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Submitted electronically through the IFRS Foundation website (www.ifrs.org)

**Exposure Draft: Transition Guidance - Proposed amendments to IFRS 10**

Grant Thornton International Ltd is pleased to comment on the International Accounting Standards Board's (the Board) Exposure Draft of *Transition Guidance – Proposed amendments to IFRS 10* (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

We welcome the IASB's decision to clarify the transition guidance in IFRS 10 and to address this issue separately rather than through an annual improvement.

We support the proposed amendments as they provide greater clarity and so should enhance consistent application of the transition requirements of IFRS 10.

Our detailed responses to the questions in the ED are set out in the Appendix to this letter, together with some additional related comments on matters not directly addressed in the ED.

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If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of International Financial Reporting, Andrew Watchman (andrew.watchman@uk.gt.com or telephone + 44 207 391 9510).

Yours sincerely,

Kenneth C. Sharp

Kenneth C Sharp
Global Leader - Assurance Services
Grant Thornton International Ltd

## Invitation to comment questions

### 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 proposed amendments as they provide greater clarity and so will promote greater consistency in the accounting for transactions on the initial application of the Standard.

We also agree with the suggestion of the IFRS Interpretations Committee (IFRIC Update September 2011) that the IASB should consider adding a definition of the 'date of initial application' to the Glossary of Terms. This will help to add clarity and consistency to the use of the term in future pronouncements.

### 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. This clarification provides a pragmatic approach to transition and is consistent with the transitional relief provided by paragraphs C4 and C5 (as clarified by the amendments considered above). An entity may not be able to obtain information from an investee that it no longer controls and so we believe that the cost of retrospective application of IFRS 10 in this circumstance is likely to outweigh the benefits to users.

### Other comments

Retrospective application of IFRS 3 – which version?

If, at the date of initial application, an investor is required to consolidate an investee that was not consolidated in accordance with IAS 27 and SIC-12, then the investor applies acquisition accounting in accordance with IFRS 3 from the date it obtained control according to the new criteria (IFRS 10 paragraph C4). If control was obtained was several years ago, it raises the question as to which version of IFRS 3 is applied for the initial acquisition accounting.

Our preference is that the entity should apply the version that is current at the end of the reporting period in which IFRS 10 is first applied, as previously agreed by the Board (IASB Update May 2010). However, this is not explicitly stated in the Standard and could lead to inconsistency in practice. We believe that IFRS 10 would benefit from an explicit statement that the current version of IFRS 3 is to be used.

### IFRS 10 paragraph C6

When an entity applies IFRS 10 for the first time, paragraph C3 provides a pragmatic exemption from retrospective application where an investor's consolidation decision is unchanged. When this optional exemption is not taken, we believe that IFRS 10 paragraph C6 is designed appropriately to retain the prospective application of the revisions to IAS 27 published in 2008 relating to profit or loss attribution, changes in ownership interest with no change in control, and accounting for loss of control.

However, we are not clear on how paragraph C6 interacts with paragraphs C4 and C5 when the consolidation decision changes on adoption of IFRS 10. If, using the criteria in IFRS 10, control was obtained or lost several years ago, IFRS 10 is applied retrospectively. In such circumstances, paragraph C6 seems to require that the investor applies the 'old' version of IAS 27 before the 2008 version became effective, then applies IFRS 10 (incorporating the revised IAS 27 requirements) after that date.

Consistent with our comment regarding IFRS 3 above, we believe that IFRS 10 would benefit from an explicit statement that the requirements of IFRS 10 (previously contained in the revised IAS 27) should be applied in conjunction with either C4 or C5 for any change of consolidation decision. Paragraph C6 should, we believe, act as a stand-alone paragraph for situations where the consolidation decision is unchanged but an entity nevertheless chooses not to apply paragraph C3.

### Interaction of IFRS 10 transition and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* paragraph 28(f) requires an entity to disclose, to the extent practicable, the amount of any adjustments required on the initial application of an IFRS for the current and each prior period presented.

When an investor's consolidation decision changes on the initial application of IFRS 10 such that it no longer consolidates an investee that was previously consolidated in accordance with IAS 27, the adjustments to the prior period are likely to be readily identifiable. However, in order to provide the disclosure required by IAS 8.28(f) for the current period, it seems the investor would need to continue to prepare information that shows the effect of consolidating its investee throughout the current period. It would be difficult to argue that this is impracticable, given that it was done in previous years, but it could nonetheless be burdensome.

If our understanding of the requirements of IAS 8 is correct, we believe the Board should consider whether additional transitional relief is appropriate in this respect.