COMMISSION REGULATION (EC) No 707/2004

of 6 April 2004

amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community.

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards [1], and in particular Article 3(1) thereof,

Whereas:

(1) On 29 September 2003 the Commission adopted Regulation (EC) No 1725/2003 [2], which endorses interpretations adopted by the Standing Interpretation Committee (SIC). One of these interpretations is SIC-8 First-time application of IASs as the primary basis of accounting. In accordance with this interpretation, when international accounting standards (IASs) are applied in full for the first time as the primary accounting basis, the financial statements of an enterprise must be prepared and presented as if its financial statements had always been prepared in accordance with the standards and interpretations in force at the time of that first application. In consequence, retrospective application is required in most areas of accounting.

(2) In order to facilitate the transition to international accounting standards and international financial reporting standards (IAS/IFRSs), the International Accounting Standards Board (IASB) decided on 19 June 2003 to replace SIC-8 with — IFRS 1: First-time adoption of International Financial Reporting Standards. In accordance with IFRS 1, an enterprise applying IASs for the first time must comply with every single IAS and Interpretation in force at the time of that first application. Thus, like SIC-8, IFRS 1 requires retrospective application in most areas of accounting. However, IFRS 1 grants limited exemptions from that requirement in specified areas for practical reasons or where the costs entailed by compliance would most likely outweigh the benefit to users of financial statements.

(3) IFRS 1 should make it possible to achieve comparability over time both within the IFRS financial statements of a first-time adopter and as between the financial statements of different enterprises adopting IFRSs for the first time on a given date, because both current and comparative figures are based on the same set of standards existing at the time of first time application of IAS. Achieving comparability as between first-time adopters and enterprises that already apply IFRSs is, however, a secondary objective, given the fact that the number of first-time adopters in 2005 will largely exceed that of the 200 to 300 EU companies already applying IAS/IFRSs.

(4) Consultation with technical experts in the field confirms that the international financial reporting standard meets the criteria for adoption set out in Article 3 of Regulation (EC) No 1606/2002, and in particular the requirement of being conducive to the European public good.

(5) Regulation (EC) No 1725/2003 should therefore be amended accordingly.

(6) The measure provided for in this Regulation is in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Article 1

In the Annex to Regulation (EC) No 1725/2003, SIC-8 First-time application of IASs as the primary basis of accounting is replaced by the text set out in the Annex to this Regulation.

Article 2

This Regulation shall enter into force on the 20th day following that of its publication in the *Official Journal of the European Union*.

[1] OJ L 243, 11.9.2002, p. 1.
[2] OJ L 261, 13.10.2003, p. 1.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 6 April 2004.

For the Commission

Frederik BOLKESTEIN

Member of the Commission

ANNEX

'IFRS 1 — First-time adoption of International Financial Reporting Standard

International Financial Reporting Standard 1 First-time Adoption of International Financial Reporting Standards (IFRS 1) is set out in paragraphs 1 to 47 and Appendices A-C. All the paragraphs have equal authority. Paragraphs in bold type state the main principles. Terms defined in Appendix A are in italics the first time they appear in the Standard. Definitions of other terms are given in the Glossary for International Financial Reporting Standards. IFRS 1 should be read in the context of its objective and the Basis for Conclusions, the Preface to International Financial Reporting Standards and the Framework for the Preparation and Presentation of Financial Statements. These provide a basis for selecting and applying accounting policies in the absence of explicit guidance.

INTRODUCTION

Reasons for issuing the IFRS

IN1. The IFRS replaces SIC-8 First-time Application of IASs as the Primary Basis of Accounting. The Board developed this IFRS to address concerns that:

(a) some aspects of SIC-8's requirement for full retrospective application caused costs that exceeded the likely benefits for users of financial statements. Moreover, although SIC-8 did not require retrospective application when this would be impracticable, it did not explain whether a first-time adopter should interpret impracticability as a high hurdle or a low hurdle and it did not specify any particular treatment in cases of impracticability.

(b) SIC-8 could require a first-time adopter to apply two different versions of a Standard if a new version were introduced during the periods covered by its first financial statements prepared under IASs and the new version prohibited retrospective application.

(c) SIC-8 did not state clearly whether a first-time adopter should use hindsight in applying recognition and measurement decisions retrospectively.

(d) there was some doubt about how SIC-8 interacted with specific transitional provisions in individual Standards.

Main features of the IFRS

IN2. The IFRS applies when an entity adopts IFRSs for the first time by an explicit and unreserved statement of compliance with IFRSs.

IN3. In general, the IFRS requires an entity to comply with each IFRS effective at the reporting date for its first IFRS financial statements. In particular, the IFRS requires an entity to do the following in the opening IFRS balance sheet that it prepares as a starting point for its accounting under IFRSs:

(a) recognise all assets and liabilities whose recognition is required by IFRSs;

(b) not recognise items as assets or liabilities if IFRSs do not permit such recognition;

(c) reclassify items that it recognised under previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under IFRSs; and

(d) apply IFRSs in measuring all recognised assets and liabilities.

IN4. The IFRS grants limited exemptions from these requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements. The IFRS also prohibits retrospective application of IFRSs in some areas, particularly where retrospective application would require judgements by management about past conditions after the outcome of a particular transaction is already known.

IN5. The IFRS requires disclosures that explain how the transition from previous GAAP to IFRSs affected the entity's reported financial position, financial performance and cash flows.

IN6. An entity is required to apply the IFRS if its first IFRS financial statements are for a period beginning on or after 1 January 2004. Earlier application is encouraged.

Changes from previous requirements

IN7. Like SIC-8, the IFRS requires retrospective application in most areas. Unlike SIC-8, the IFRS:

(a) includes targeted exemptions to avoid costs that would be likely to exceed the benefits to users of financial statements, and a small number of other exceptions for practical reasons.

(b) clarifies that an entity applies the latest version of IFRSs.

(c) clarifies how a first-time adopter's estimates under IFRSs relate to the estimates it made for the same date under previous GAAP.

(d) specifies that the transitional provisions in other IFRSs do not apply to a first-time adopter.

(e) requires enhanced disclosure about the transition to IFRSs.

INTERNATIONAL FINANCIAL REPORTING STANDARD 1

First-time adoption of International Financial Reporting Standards

OBJECTIVE

1. The objective of this IFRS is to ensure that an entity's first IFRS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:

(a) is transparent for users and comparable over all periods presented;

(b) provides a suitable starting point for accounting under International Financial Reporting Standards (IFRSs); and

(c) can be generated at a cost that does not exceed the benefits to users.

SCOPE

2. An entity shall apply this IFRS in:

(a) its first IFRS financial statements; and

(b) each interim financial report, if any, that it presents under IAS 34 Interim Financial Reporting for part of the period covered by its first IFRS financial statements.

3. An entity's first IFRS financial statements are the first annual financial statements in which the entity adopts IFRSs, by an explicit and unreserved statement in those financial statements of compliance with IFRSs. Financial statements under IFRSs are an entity's first IFRS financial statements if, for example, the entity:

(a) presented its most recent previous financial statements:

(i) under national requirements that are not consistent with IFRSs in all respects;

(ii) in conformity with IFRSs in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with IFRSs;

(iii) containing an explicit statement of compliance with some, but not all, IFRSs;

(iv) under national requirements inconsistent with IFRSs, using some individual IFRSs to account for items for which national requirements did not exist; or

(v) under national requirements, with a reconciliation of some amounts to the amounts determined under IFRSs;

(b) prepared financial statements under IFRSs for internal use only, without making them available to the entity's owners or any other external users;

(c) prepared a reporting package under IFRSs for consolidation purposes without preparing a complete set of financial statements as defined in IAS 1 Presentation of Financial Statements; or

(d) did not present financial statements for previous periods.

4. This IFRS applies when an entity first adopts IFRSs. It does not apply when, for example, an entity:

(a) stops presenting financial statements under national requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with IFRSs;

(b) presented financial statements in the previous year under national requirements and those financial statements contained an explicit and unreserved statement of compliance with IFRSs; or

(c) presented financial statements in the previous year that contained an explicit and unreserved statement of compliance with IFRSs, even if the auditors qualified their audit report on those financial statements.

5. This IFRS does not apply to changes in accounting policies made by an entity that already applies IFRSs. Such changes are the subject of:

(a) requirements on changes in accounting policies in IAS 8 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies; and

(b) specific transitional requirements in other IFRSs.

RECOGNITION AND MEASUREMENT

Opening IFRS balance sheet

6. An entity shall prepare an opening IFRS balance sheet at the date of transition to IFRSs. This is the starting point for its accounting under IFRSs. An entity need not present its opening IFRS balance sheet in its first IFRS financial statements.

Accounting policies

7. **An entity shall use the same accounting policies in its opening IFRS balance sheet and throughout all periods presented in its first IFRS financial statements. Those accounting policies shall comply with each IFRS effective at the *reporting date* for its first IFRS financial statements, except as specified in paragraphs 13 to 34.**

8. An entity shall not apply different versions of IFRSs that were effective at earlier dates. An entity may apply a new IFRS that is not yet mandatory if it permits early application.

Example: Consistent application of latest version of IFRSs

BACKGROUND

The reporting date for entity A's first IFRS financial statements is 31 December 2005. Entity A decides to present comparative information in those financial statements for one year only (see paragraph 36). Therefore, its date of transition to IFRSs is the beginning of business on 1 January 2004 (or, equivalently, close of business on 31 December 2003). Entity A presented financial statements under its previous GAAP annually to 31 December each year up to, and including, 31 December 2004.

APPLICATION OF REQUIREMENTS

Entity A is required to apply the IFRSs effective for periods ending on 31 December 2005 in:

(a) preparing its opening IFRS balance sheet at 1 January 2004; and

(b) preparing and presenting its balance sheet for 31 December 2005 (including comparative amounts for 2004), income statement, statement of changes in equity and cash flow statement for the year to 31 December 2005 (including comparative amounts for 2004) and disclosures (including comparative information for 2004).

If a new IFRS is not yet mandatory but permits early application, entity A is permitted, but not required, to apply that IFRS in its first IFRS financial statements.

9. The transitional provisions in other IFRSs apply to changes in accounting policies made by an entity that already uses IFRSs; they do not apply to a first-time adopter's transition to IFRSs, except as specified in paragraphs 27 to 30.

10. Except as described in paragraphs 13 to 34, an entity shall, in its opening IFRS balance sheet:

(a) recognise all assets and liabilities whose recognition is required by IFRSs;

(b) not recognise items as assets or liabilities if IFRSs do not permit such recognition;

(c) reclassify items that it recognised under previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under IFRSs; and

(d) apply IFRSs in measuring all recognised assets and liabilities.

11. The accounting policies that an entity uses in its opening IFRS balance sheet may differ from those that it used for the same date using its previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to IFRSs. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to IFRSs.

12. This IFRS establishes two categories of exceptions to the principle that an entity's opening IFRS balance sheet shall comply with each IFRS:

(a) paragraphs 13 to 25 grant exemptions from some requirements of other IFRSs.

(b) paragraphs 26 to 34 prohibit retrospective application of some aspects of other IFRSs.

Exemptions from other IFRSs

13. An entity may elect to use one or more of the following exemptions:

(a) business combinations (paragraph 15);

(b) fair value or revaluation as deemed cost (paragraphs 16 to 19);

(c) employee benefits (paragraph 20);

(d) cumulative translation differences (paragraphs 21 and 22);

(e) compound financial instruments (paragraph 23); and

(f) assets and liabilities of subsidiaries, associates and joint ventures (paragraphs 24 and 25).

An entity shall not apply these exemptions by analogy to other items.

14. Some exemptions below refer to fair value. IAS 22 Business Combinations explains how to determine the fair values of identifiable assets and liabilities acquired in a business combination. An entity shall apply those explanations in determining fair values under this IFRS, unless another IFRS contains more specific guidance on the determination of fair values for the asset or liability in question. Those fair values shall reflect conditions that existed at the date for which they were determined.

Business combinations

15. An entity shall apply the requirements in Appendix B to business combinations that the entity recognised before the date of transition to IFRSs.

Fair value or revaluation as deemed cost

16. An entity may elect to measure an item of property, plant and equipment at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost at that date.

17. A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to IFRSs as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

(a) fair value; or

(b) cost or depreciated cost under IFRSs, adjusted to reflect, for example, changes in a general or specific price index.

18. The elections in paragraphs 16 and 17 are also available for:

(a) investment property, if an entity elects to use the cost model in IAS 40 Investment Property; and

(b) intangible assets that meet:

(i) the recognition criteria in IAS 38 Intangible Assets (including reliable measurement of original cost); and

(ii) the criteria in IAS 38 for revaluation (including the existence of an active market).

An entity shall not use these elections for other assets or for liabilities.

19. A first-time adopter may have established a deemed cost under previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a privatisation or initial public offering. It may use such event-driven fair value measurements as deemed cost for IFRSs at the date of that measurement.

Employee benefits

20. Under IAS 19 Employee Benefits, an entity may elect to use a "corridor" approach that leaves some actuarial gains and losses unrecognised. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to IFRSs into a recognised portion and an unrecognised portion. However, a first-time adopter may elect to recognise all cumulative actuarial gains and losses at the date of transition to IFRSs, even if it uses the corridor approach for later actuarial gains and losses. If a first-time adopter uses this election, it shall apply it to all plans.

Cumulative translation differences

21. IAS 21 The Effects of Changes in Foreign Exchange Rates requires an entity:

(a) to classify some translation differences as a separate component of equity; and

(b) on disposal of a foreign operation, to transfer the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) to the income statement as part of the gain or loss on disposal.

22. However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to IFRSs. If a first-time adopter uses this exemption:

(a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRSs; and

(b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to IFRSs and shall include later translation differences.

Compound financial instruments

23. IAS 32 Financial Instruments: Disclosure and Presentation requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of IAS 32 involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, under this IFRS, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to IFRSs.

Assets and liabilities of subsidiaries, associates and joint ventures

24. If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its separate financial statements, measure its assets and liabilities at either:

(a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary; or

(b) the carrying amounts required by the rest of this IFRS, based on the subsidiary's date of transition to IFRSs. These carrying amounts could differ from those described in (a):

(i) when the exemptions in this IFRS result in measurements that depend on the date of transition to IFRSs.

(ii) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use the benchmark treatment in IAS 16 Property, Plant and Equipment, whereas the group may use the allowed alternative treatment.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

25. However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the separate financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary. Similarly, if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

Exceptions to retrospective application of other IFRSs

26. This IFRS prohibits retrospective application of some aspects of other IFRSs relating to:

(a) derecognition of financial assets and financial liabilities (paragraph 27);

(b) hedge accounting (paragraphs 28 to 30); and

(c) estimates (paragraphs 31 to 34).

Derecognition of financial assets and financial liabilities

27. A first-time adopter shall apply the derecognition requirements in IAS 39 Financial Instruments: Recognition and Measurement prospectively from the effective date of IAS 39. In other words, if a first-time adopter derecognised financial assets or financial liabilities under its previous GAAP in a financial year beginning before 1 January 2001, it shall not recognise those assets and liabilities under IFRSs (unless they qualify for recognition as a result of a later transaction or event). However, the first-time adopter shall:

(a) recognise all derivatives and other interests, such as servicing rights or servicing liabilities, retained after the derecognition transaction and still existing at the date of transition to IFRSs; and

(b) consolidate all special purpose entities (SPEs) that it controls at the date of transition to IFRSs, even if the SPEs existed before the date of transition to IFRSs or hold financial assets or financial liabilities that were derecognised under previous GAAP.

Hedge accounting

28. As required by IAS 39 Financial Instruments: Recognition and Measurement, at the date of transition to IFRSs, an entity shall:

(a) measure all derivatives at fair value; and

(b) eliminate all deferred losses and gains arising on derivatives that were reported under previous GAAP as if they were assets or liabilities.

29. An entity shall not reflect in its opening IFRS balance sheet a hedging relationship of a type that does not qualify for hedge accounting under IAS 39 (for example, many hedging relationships where the hedging instrument is a cash instrument or written option; where the hedged item is a net position; or where the hedge covers interest risk in a held-to-maturity investment). However, if an entity designated a net position as a hedged item under previous GAAP, it may designate an individual item within that net position as a hedged item under IFRSs, provided that it does so no later than the date of transition to IFRSs.

30. An entity shall apply the transitional provisions of IAS 39 to all other hedging relationships that existed at the date of transition to IFRSs.

Estimates

31. **An entity's estimates under IFRSs at the date of transition to IFRSs shall be consistent with estimates made for the same date under previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.**

32. An entity may receive information after the date of transition to IFRSs about estimates that it had made under previous GAAP. Under paragraph 31, an entity shall treat the receipt of that information in the same way as non-adjusting events after the balance sheet date under IAS 10 Events After the Balance Sheet Date. For example, assume that an entity's date of transition to IFRSs is 1 January 2004 and new information on 15 July 2004 requires the revision of an estimate made under previous GAAP at 31 December 2003. The entity shall not reflect that new information in its opening IFRS balance sheet (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in its income statement (or, if appropriate, other changes in equity) for the year ended 31 December 2004.

33. An entity may need to make estimates under IFRSs at the date of transition to IFRSs that were not required at that date under previous GAAP. To achieve consistency with IAS 10, those estimates under IFRSs shall reflect conditions that existed at the date of transition to IFRSs. In particular, estimates at the date of transition to IFRSs of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date.

34. Paragraphs 31 to 33 apply to the opening IFRS balance sheet. They also apply to a comparative period presented in an entity's first IFRS financial statements, in which case the references to the date of transition to IFRSs are replaced by references to the end of that comparative period.

PRESENTATION AND DISCLOSURE

35. This IFRS does not provide exemptions from the presentation and disclosure requirements in other IFRSs.

Comparative information

36. To comply with IAS 1 Presentation of Financial Statements, an entity's first IFRS financial statements shall include at least one year of comparative information under IFRSs.

37. Some entities present historical summaries of selected data for periods before the first period for which they present full comparative information under IFRSs. This IFRS does not require such summaries to comply with the recognition and measurement requirements of IFRSs. Furthermore, some entities present comparative information under previous GAAP as well as the comparative information required by IAS 1. In any financial statements containing historical summaries or comparative information under previous GAAP, an entity shall:

    (a) label the previous GAAP information prominently as not being prepared under IFRSs; and

    (b) disclose the nature of the main adjustments that would make it comply with IFRSs. An entity need not quantify those adjustments.

Explanation of transition to IFRSs

38. **An entity shall explain how the transition from previous GAAP to IFRSs affected its reported financial position, financial performance and cash flows.**

Reconciliations

39. To comply with paragraph 38, an entity's first IFRS financial statements shall include:

    (a) reconciliations of its equity reported under previous GAAP to its equity under IFRSs for both of the following dates:

        (i) the date of transition to IFRSs; and

        (ii) the end of the latest period presented in the entity's most recent annual financial statements under previous GAAP;

    (b) a reconciliation of the profit or loss reported under previous GAAP for the latest period in the entity's most recent annual financial statements to its profit or loss under IFRSs for the same period; and

    (c) if the entity recognised or reversed any impairment losses for the first time in preparing its opening IFRS balance sheet, the disclosures that IAS 36 Impairment of Assets would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to IFRSs.

40. The reconciliations required by paragraph 39(a) and (b) shall give sufficient detail to enable users to understand the material adjustments to the balance sheet and income statement. If an entity presented a cash flow statement under its previous GAAP, it shall also explain the material adjustments to the cash flow statement.

41. If an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraph 39(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.

42. IAS 8 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies does not deal with changes in accounting policies that occur when an entity first adopts IFRSs. Therefore, IAS 8's requirements for disclosures about changes in accounting policies do not apply in an entity's first IFRS financial statements.

43. If an entity did not present financial statements for previous periods, its first IFRS financial statements shall disclose that fact.

Use of fair value as deemed cost

44. If an entity uses fair value in its opening IFRS balance sheet as deemed cost for an item of property, plant and equipment, an investment property or an intangible asset (see paragraphs 16 and 18), the entity's first IFRS financial statements shall disclose, for each line item in the opening IFRS balance sheet:

   (a) the aggregate of those fair values; and

   (b) the aggregate adjustment to the carrying amounts reported under previous GAAP.

Interim financial reports

45. To comply with paragraph 38, if an entity presents an interim financial report under IAS 34 Interim Financial Reporting for part of the period covered by its first IFRS financial statements, the entity shall satisfy the following requirements in addition to the requirements of IAS 34:

   (a) Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include reconciliations of:

      (i) its equity under previous GAAP at the end of that comparable interim period to its equity under IFRSs at that date; and

      (ii) its profit or loss under previous GAAP for that comparable interim period (current and year-to-date) to its profit or loss under IFRSs for that period.

   (b) In addition to the reconciliations required by (a), an entity's first interim financial report under IAS 34 for part of the period covered by its first IFRS financial statements shall include the reconciliations described in paragraph 39(a) and (b) (supplemented by the details required by paragraphs 40 and 41) or a cross-reference to another published document that includes these reconciliations.

46. IAS 34 requires minimum disclosures, which are based on the assumption that users of the interim financial report also have access to the most recent annual financial statements. However, IAS 34 also requires an entity to disclose 'any events or transactions that are material to an understanding of the current interim period'. Therefore, if a first-time adopter did not, in its most recent annual financial statements under previous GAAP, disclose information material to an understanding of the current interim period, its interim financial report shall disclose that information or include a cross-reference to another published document that includes it.

EFFECTIVE DATE

47. An entity shall apply this IFRS if its first IFRS financial statements are for a period beginning on or after 1 January 2004. Earlier application is encouraged. If an entity's first IFRS financial statements are for a period beginning before 1 January 2004 and the entity applies this IFRS instead of SIC-8 First-time Application of IASs as the Primary Basis of Accounting, it shall disclose that fact.

Appendix A

Defined terms

This appendix is an integral part of the IFRS.

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.
deemed cost	An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.
fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
first IFRS financial statements	The first annual financial statements in which an entity adopts International Financial Reporting Standards (IFRSs), by an explicit and unreserved statement of compliance with IFRSs.
first-time adopter	An entity that presents its first IFRS financial statements.
International Financial Reporting Standards (IFRSs)	Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise: a) International Financial Reporting Standards; b) International Accounting Standards; and c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC), and adopted by the IASB.
opening IFRS balance sheet	An entity's balance sheet (published or unpublished) at the date of transition to IFRSs.
previous GAAP	The basis of accounting that a first-time adopter used immediately before adopting IFRSs.
reporting date	The end of the latest period covered by financial statements or by an interim financial report.

Appendix B

Business combinations

This appendix is an integral part of the IFRS.

B1. A first-time adopter may elect not to apply IAS 22 Business Combinations retrospectively to past business combinations (business combinations that occurred before the date of transition to IFRSs). However, if a first-time adopter restates any business combination to comply with IAS 22, it shall restate all later business combinations. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 2002, it shall restate all business combinations that occurred between 30 June 2002 and the date of transition to IFRSs.

B2. If a first-time adopter does not apply IAS 22 retrospectively to a past business combination, this has the following consequences for that business combination:

(a) The first-time adopter shall keep the same classification (as an acquisition by the legal acquirer, a reverse acquisition by the legal acquiree, or a uniting of interests) as in its previous GAAP financial statements.

(b) The first-time adopter shall recognise all its assets and liabilities at the date of transition to IFRSs that were acquired or assumed in a past business combination, other than:

(i) some financial assets and financial liabilities derecognised under previous GAAP (see paragraph 27); and

(ii) assets, including goodwill, and liabilities that were not recognised in the acquirer's consolidated balance sheet under previous GAAP and also would not qualify for recognition under IFRSs in the separate balance sheet of the acquiree (see paragraph B2(f) to B2(i)).

The first-time adopter shall recognise any resulting change by adjusting retained earnings (or, if appropriate, another category of equity), unless the change results from the recognition of an intangible asset that was previously subsumed within goodwill (see paragraph B2(g)(i)).

(c) The first-time adopter shall exclude from its opening IFRS balance sheet any item recognised under previous GAAP that does not qualify for recognition as an asset or liability under IFRSs. The first-time adopter shall account for the resulting change as follows:

(i) the first-time adopter may have classified a past business combination as an acquisition and recognised as an intangible asset an item that does not qualify for recognition as an asset under IAS 38 Intangible Assets. It shall reclassify that item (and, if any, the related deferred tax and minority interests) as part of goodwill (unless it deducted goodwill directly from equity under previous GAAP, see paragraph B2(g)(i) and B2(i)).

(ii) the first-time adopter shall recognise all other resulting changes in retained earnings (*).

(d) IFRSs require subsequent measurement of some assets and liabilities on a basis that is not based on original cost, such as fair value. The first-time adopter shall measure these assets and liabilities on that basis in its opening IFRS balance sheet, even if they were acquired or assumed in a past business combination. It shall recognise any resulting change in the carrying amount by adjusting retained earnings (or, if appropriate, another category of equity), rather than goodwill.

(e) Immediately after the business combination, the carrying amount under previous GAAP of assets acquired and liabilities assumed in that business combination shall be their deemed cost under IFRSs at that date. If IFRSs require a cost-based measurement of those assets and liabilities at a later date, that deemed cost shall be the basis for cost-based depreciation or amortisation from the date of the business combination.

(*) Such changes include reclassifications from or to intangible assets if goodwill was not recognised under previous GAAP as an asset. This arises if, under previous GAAP, the entity (a) deducted goodwill directly from equity or (b) did not treat the business combination as an acquisition.

(f) If an asset acquired, or liability assumed, in a past business combination was not recognised under previous GAAP, it does not have a deemed cost of zero in the opening IFRS balance sheet. Instead, the acquirer shall recognise and measure it in its consolidated balance sheet on the basis that IFRSs would require in the separate balance sheet of the acquiree. To illustrate: if the acquirer had not, under its previous GAAP, capitalised finance leases acquired in a past business combination, it shall capitalise those leases in its consolidated financial statements, as IAS 17 Leases would require the acquiree to do in its separate IFRS balance sheet. Conversely, if an asset or liability was subsumed in goodwill under previous GAAP but would have been recognised separately under IAS 22, that asset or liability remains in goodwill unless IFRSs would require its recognition in the separate financial statements of the acquiree.

(g) The carrying amount of goodwill in the opening IFRS balance sheet shall be its carrying amount under previous GAAP at the date of transition to IFRSs, after the following three adjustments:

(i) If required by paragraph B2(c)(i) above, the first-time adopter shall increase the carrying amount of goodwill when it reclassifies an item that it recognised as an intangible asset under previous GAAP. Similarly, if paragraph B2(f) requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill under previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill accordingly (and, if applicable, adjust deferred tax and minority interests).

(ii) A contingency affecting the amount of the purchase consideration for a past business combination may have been resolved before the date of transition to IFRSs. If a reliable estimate of the contingent adjustment can be made and its payment is probable, the first-time adopter shall adjust the goodwill by that amount. Similarly, the first-time adopter shall adjust the carrying amount of goodwill if a previously recognised contingent adjustment can no longer be measured reliably or its payment is no longer probable.

(iii) Regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply IAS 36 Impairment of Assets in testing the goodwill for impairment at the date of transition to IFRSs and in recognising any resulting impairment loss in retained earnings (or, if so required by IAS 36, in revaluation surplus). The impairment test shall be based on conditions at the date of transition to IFRSs.

(h) No other adjustments shall be made to the carrying amount of goodwill at the date of transition to IFRSs. For example, the first-time adopter shall not restate the carrying amount of goodwill:

(i) to exclude in-process research and development acquired in that business combination (unless the related intangible asset would qualify for recognition under IAS 38 in the separate balance sheet of the acquiree);

(ii) to adjust previous amortisation of goodwill;

(iii) to reverse adjustments to goodwill that IAS 22 would not permit, but were made under previous GAAP because of adjustments to assets and liabilities between the date of the business combination and the date of transition to IFRSs.

(i) If the first-time adopter recognised goodwill under previous GAAP as a deduction from equity:

(i) it shall not recognise that goodwill in its opening IFRS balance sheet. Furthermore, it shall not transfer that goodwill to the income statement if it disposes of the subsidiary or if the investment in the subsidiary becomes impaired.

(ii) adjustments resulting from the subsequent resolution of a contingency affecting the purchase consideration shall be recognised in retained earnings.

(j) Under its previous GAAP, the first-time adopter may not have consolidated a subsidiary acquired in a past business combination (for example, because the parent did not regard it as a subsidiary under previous GAAP or did not prepare consolidated financial statements). The first-time adopter shall adjust the carrying amounts of the subsidiary's assets and liabilities to the amounts that IFRSs would require in the subsidiary's separate balance sheet. The deemed cost of goodwill equals the difference at the date of transition to IFRSs between:

(i) the parent's interest in those adjusted carrying amounts; and

(ii) the cost in the parent's separate financial statements of its investment in the subsidiary.

(k) The measurement of minority interests and deferred tax follows from the measurement of other assets and liabilities. Therefore, the above adjustments to recognised assets and liabilities affect minority interests and deferred tax.

B3. The exemption for past business combinations also applies to past acquisitions of investments in associates and of interests in joint ventures.

B4. Furthermore, the date selected for paragraph B1 applies equally for all such acquisitions.

Appendix C

Amendments to other IFRSs

The amendments in this appendix become effective for annual financial statements covering periods beginning on or after 1 January 2004. If an entity applies this IFRS for an earlier period, these amendments become effective for that earlier period.

C1 This IFRS supersedes SIC-8 First-time Application of IASs as the Primary Basis of Accounting.

C2 This IFRS amends paragraph 172(h) of IAS 39 Financial Instruments: Recognition and Measurement to read as follows:

"(h) if a securitisation, transfer, or other derecognition transaction was entered into prior to the beginning of the financial year in which this Standard is initially applied, the accounting for that transaction should not be retrospectively changed to conform to the requirements of this Standard. However, this does not exempt a transferor from the requirements:

(i) to recognise all derivatives or other interests, such as servicing rights or servicing liabilities, retained after that transaction that qualify for recognition under this Standard or other IFRSs; and

(ii) to consolidate all special purpose entities controlled by the transferor (see SIC-12 Consolidation—Special Purpose Entities).'"