IFRS 1
First-time adoption of international financial reporting standards

1. Objective

This Standard is intended to ensure that the first-time IFRS financial statements adopted by a company contain high-quality information that:

- is transparent for users;
- is comparable for all of the reporting periods presented in accordance with IFRSs;
- can be implemented at a cost that does not exceed the benefits obtained by the users.

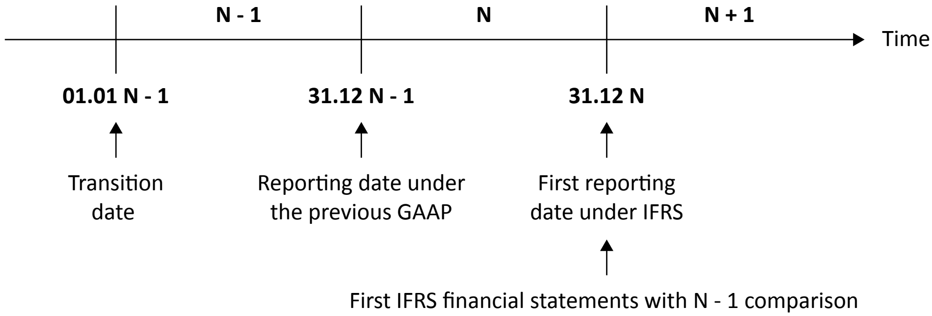
When first-time adopters must file regulatory deferral account statements, they should refer to IFRS 14.

2. Scope

An entity should apply this Standard for:

- its first IFRS financial statements;
- each interim financial report for the reporting period covered by its first IFRS financial statements (pursuant to IAS 34).

The “first IFRS financial statements” are those confirmed by an explicit and unreserved statement of compliance with IFRSs.



3. Accounting impact

3.1 The first opening statement of financial position

The entity must prepare an opening IFRS statement of financial position as at the transition date. This is the starting point for its accounting in accordance with the IFRSs.
The entity applies the same accounting policies in its opening statement of financial position and in all subsequent periods presented in its first financial statements. Apart from the exceptions described below, the accounting policies used must be in compliance with each IAS/IFRS in force on the reporting date of the first financial statements.

The company must therefore:

- recognize all the assets and liabilities as required under the IAS/IFRSs;
- recognize items as assets or liabilities only if the IAS/IFRSs authorize such a treatment;
- reclassify, in accordance with the IAS/IFRSs, all of the items of the assets and liabilities that it had recognized under its previous national accounting requirements (GAAP) applied;
- apply all IASs/IFRSs necessary to carry out the measurement of the assets and liabilities recognized.

All of the adjustments necessary with regard to the matters indicated above should be recognized directly in equity at transition date.

Example 1: Company X's balance sheet as of 31 December N–2 established according to national standards was presented as follows:

Assets	2,500
Liabilities	– 700
Equity	1,800

In accordance with the IFRSs, the assets would have been measured at 2,600 and liabilities at 730.
The first opening IFRS statement of financial position (as of 1 January N–1) therefore contained the following:

Assets	2,600
Liabilities	– 730
Equity	1,870

The equity under IFRS therefore increased by 70, i.e. +100 coming from the restatement of the assets, and -30 from the restatement of the liabilities.

3.2 Exceptions to the compliance principle

IFRS 1 provides for two categories of exceptions to the principle of compliance of the first opening statement of financial position with each one of IASs/IFRSs:

- exemptions from certain provisions of other IASs/IFRSs;
- prohibition from the retrospective application of certain provisions of other IASs/IFRSs.

1° Exemptions from certain provisions of other IASs/IFRSs

The company can choose to use one or several of the following exemptions:

- the first-time adopter can opt not to apply IFRS 3 retrospectively to business combinations occurring before the date of transition to IFRS. The entity can choose, the date of the first business combination for which it claims the exemption (in which case, all subsequent business combinations must be treated according to IFRS 3 and restated retrospectively);
- the company can opt to measure a fixed asset at its fair value at transition date and use this fair value as the deemed cost on that date;
- the company can decide to retain a revaluation of a fixed asset, carried out according to the previous national accounting requirements applied, and consider it to be a deemed cost on the reevaluation date if the value is comparable overall:
  - ✓ to the fair value,
  - ✓ or to the cost,
  - ✓ or to the depreciated cost in accordance with the IFRSs.

This choice may be applied to investment properties if the company opts for the cost model described in IAS 40, and to intangible fixed assets (IAS 38), when an active market exists.

Example 2: Company Y acquired a building roughly thirty years ago. It is unable to determine its cost. On 31 December N-4, the fair value of the building was estimated at 1,500,000 and a remaining useful life of 25 years (hence an annual allowance for depreciation equal to 60,000).

To establish the first financial statement under IFRS (1 January N-1) the company can measure the building at: 1,500,000 – (60,000 × 2) = 1,380,000.

➢ *For the purposes of simplification, the impact of deferred tax is not taken into account in the example above.*

- the first-time adopter is not required to recognize the translation differences existing at transition date and classify them as separate items of equity. However, translation differences arising after transition date should then be recognized in accordance with IAS 21 "The effects of changes in foreign exchange rates";
- compound financial instruments, covered by IAS 32, including debt instruments that will have been settled on the transition date, need not be broken-down into component parts;
- in the event that a subsidiary becomes a first-time adopter after its parent company, it can measure its assets and liabilities in its separate financial statements:
  - ✓ either at the carrying amounts that must be included in the parent company's consolidated financial statements (IFRS), taking into account the parent company's transition date,
  - ✓ or at the carrying amounts imposed by the previous national accounting requirements system. The subsidiary can in turn take advantage of the benefits of first adoption after the parent company;
- an entity may designate previously recognized financial instruments and recognize their fair value through profit and loss (IFRS 9).

2° Prohibition of retrospectively applying certain provisions of other IFRSs

- the first-time adopter should apply the provisions relating to the derecognition of financial assets and liabilities only starting from transition date, unless this information was available as at transition date. Reference must be made to IFRS 9;
- the company must not show, in its first opening IFRS statement of financial position, a hedging relationship that did not, at transition date, meet the

requirements for hedge accounting under IFRS 9;
- the estimates carried out by the company according to IFRS on the transition date must correspond to the estimates carried out on the same date under the previous national accounting requirements.

Examples of reclassification under IFRS

Balance sheet	Separate presentation of the current and non-current items under IAS 1
Intangible assets	Non-recognition under IAS 38 (R&D) and profit or loss of a business combination (adjustment of goodwill)
Financial assets	Four categories under IFRS 9
Securities in the cash flow statement	Classification as a cash equivalent only if maturity < 3 months of the acquisition date
Financial instruments	Liabilities or equity under IAS 32
Offsetting	Presentation of gross amounts unless offsetting is allowed in IFRS

Examples of measurements under IFRS

Financial instruments	Fair value or amortized cost under IFRS 9
Retirement pension liabilities	Full application of IAS 19
Provisions	Reliable estimate under IAS 37
Impairment of assets	Full application of IAS 36
Reevaluation of inventory	Not permitted under IAS 2
?	??

4. Disclosure

In accordance with IAS 1, the first IFRS financial statements of an entity must present at least one reporting period for comparison purposes.

The entity must explain the impact the transition from the previous **accounting framework** has on its financial position, its financial performance and its cash flows under the IFRS system.

The entity should present a reconciliation between equity determined under the previous accounting framework, and equity determined in accordance with the IASs/IFRSs at the date of the last reporting period.

Likewise, the entity must present a reconciliation of profits and losses between the former accounting framework and the new accounting system under IFRS.

When the company recognizes or reverses losses in value for the first time when preparing its first opening IFRS statement of financial position, the same information as that required under IAS 36 must be provided, and in particular, the aggregate of the fair values and the accounting adjustments arising from changes in the accounting system.

Note: in the context of periodic improvements carried out by the IASB and adopted by the EU on 18 and 19 December 2014, it was decided that a first-time adopter can decide whether or not to apply in advance a standard whose entry into force has not yet become obligatory, but is permitted.