



M A Z A R S

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

29 January 2009

Dear Sir/Madam,

IASB's Exposure Draft of proposed amendments to IFRS 1 "Additional Exemptions for First-time Adopters"

Mazars welcomes the opportunity to comment on the Exposure Draft of proposed Amendments to IFRS 1 "Additional Exemptions for First-time Adopters".

We encourage the Board to make the transition to IFRS easier. Additional exemptions would ensure first time adopters to realize a transition without an excessive financial cost being incurred.

We agree with most of the proposals detailed in the exposure draft. Detailed responses to the specific questions included in the Exposure Draft are attached to this letter.

We would be pleased to discuss our comments with you and remain at your disposal if you should require further clarification or additional information.

Yours sincerely

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APPENDIX

Oils and gas assets disclosure

Question 1 - Do you agree with the proposed deemed cost option for entities using full cost accounting under previous GAAP? Why or why not? If not, what alternative do you propose and why?

The amendment to IFRS 1 is a practical solution to prevent excessive financial cost being incurred by entities resulting from the fair value measurement of oil and gas assets.

However, it is recognized in the basis of conclusion of the exposure draft that the deemed cost using a pro-rata full cost accounting method would include certain costs that are not permitted to be capitalised under extant IFRS. This may in many cases result in a pro-rata costs that are in excess of recoverable amount and to this end, the exposure draft includes the requirement for an impairment test on date of transition to IFRS for these assets.

The impairment test considers that the recoverable amount of the assets is the higher of fair value less costs to sell or value in use. Given the unique nature of these assets, in many situations there is unlikely to be market evidence which would provide sufficient evidence to support a fair value, therefore the value in use model would be applied.

Using the value in use model would be subjective given that these are development assets, therefore the calculation would require speculation of the potential expected mineral reserve and then speculation of the expected future cash flows deriving from that theoretical mineral reserve. The resultant of the value in use model may be a value that exceeds the deemed cost as defined by the standard.

Therefore the additional requirement for an impairment test would not appear to equalise the application of IFRS between those countries and companies that has previously adopted IFRS and those that are now in the consideration process of converting to IFRS.

Whilst concurring with the IASB that in certain circumstances determining a fair value for these assets may be excessively costly to companies, the solution proposed by the IASB does not appear to be equitable to those companies that have already adopted IFRS.

However, on balance of financial cost over practicality, we would agree with the IASB position.

Question 2 – Do you agree with the proposed disclosure requirements relating to the deemed cost option for oil and gas assets? Why or why not?

We would agree with the IASB position that if an entity uses the exemption provided in Question 1, full disclosure should be provided in the financial statements.



Deemed costs for operation subject to rate regulation

Question 3 – Do you agree with the proposed deemed cost option for entities with operations subject to rate regulation? Why or why not? If not, what alternative do you propose and why?

The amendment of IFRS 1 is a practical solution to prevent excessive cost being incurred by entities to determine the value of the property, plant and equipment (PPE) at the transition date.

Under IAS 16 - Plant, Property and Equipment (IAS 16), the cost of PPE shall *“include all costs incurred initially to acquire or construct an item of PPE”* (§10).

Under the current IFRS 1 – First-time Adoption of International Financial Reporting Standards (IFRS 1), the entity has the option to measure its PPE at fair value at the transition date and to use this value as the deemed cost at that date.

Entities, recording the result of their regulated operations in accordance with US GAAP SFAS 71 – Accounting for the Effects of Certain Types of Regulation (SFAS 71), include in their PPE an allowance for funds used during construction (AFUDC), which is made of the cost of borrowed funds and a return on equity funds attributable to plant under construction.

In addition, PPE are broken down by groups of assets having the same of similar service life expectancies. A weighted average service life for the group is estimated and the depreciation expense is then determined by applying the straight-line method to the cost of the group.

Under these circumstances, it would be impracticable (as defined in IAS 8) for an entity to re-construct a PPE listing asset by asset using the actual acquisition date in order to determine the deemed cost at the transition date.

Regulated activities are sometimes subject to monopoly and therefore, an entity would not be able to determine the fair value of PPE separately from the business taken as a whole.

Therefore, we agree with the IASB proposal.

However, we consider that this amendment does not address all issues related to the transition from SFAS 71 to IFRS for PPE. In particular, with regards to the following aspects:

- PPE recorded in accordance with SFAS 71 may include a return on equity funds attributable to plant under construction whereas only borrowing cost may be capitalized in accordance with IAS 23;
- Depreciation is determined by group of property with similar life expectancies, whereas in accordance to IAS 16, individual assets should be broken down by components;
- Gain/loss arising from derecognition of an item of property is not reported in profit or loss where as it shall be reported as profit or loss in accordance with IAS 16.

Leases

Question 4 - Do you agree with the proposal not to require the reassessment of whether an arrangement contains a lease in the circumstances described in this exposure draft? Why or why not?

We concur with the position taken by the IASB given the explanations provided in the basis of conclusion.

Assessments under previous GAAP before the date of transition to IFRSs

The Board considered whether to modify IFRS 1 so that entities need not reassess, at the date of transition to IFRSs, prior accounting if that prior accounting permitted the same prospective application as IFRSs with the only difference from IFRSs being the effective date from which that accounting was applied. In this regard, the Board noted that any such proposal must apply to identical, rather than similar accounting, because it would be too difficult to determine and enforce what constitutes a sufficient degree of similarity. The Board decided not to adopt such a modification because it concluded that the situation referred to in Question 4 is the only one in which relief of this type is needed.

Question 5 - Do you agree that the situation referred to in Question 4 is the only one in which additional relief of this type is needed? If not, in what other situations is relief necessary and why?

We are not aware of any other situations in which this relief would arise therefore do not consider that a general modification to IFRS 1 as denoted would be necessary. We would agree with the Board that this exemption should only be provided on a case-by-case basis.