THE ASSOCIATION OF INTERNATIONAL ACCOUNTANTS

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AIA's Response to IASB Exposure Draft of Additional Exemptions for First-time Adopters (proposed amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards)

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Introduction

These comments are submitted by the Association of International Accountants, with input from a technical committee and members of the Association. AIA would like to thank Mr Bob Greenwood for his input in this response.

About AIA

AIA is one of six statutorily Recognised Qualifying Bodies (RQBs) in the United Kingdom for statutory auditors under the Companies Act 2006. The AIA professional qualification is recognised throughout the European Union and in other major financial centres around the world.

The Association promotes and supports the advancement of the accountancy profession both in the UK and internationally. Whilst supporting international accounting and auditing standards the AIA seeks to ensure that its examinations and membership requirements support the development of the accountancy profession in the countries in which it examines.

The AIA's examinations for membership have been held half-yearly on a world wide basis for 80 years. The examinations are based on International Financial Reporting and International Auditing Standards and are complimented by a range of variant papers applicable to local tax and company law in key jurisdictions together with an optional paper in Islamic Accounting. As an RQB under the UK Companies Act 2006 the AIA offers to students who take its examinations commencing in or after June 1991 and go on as members to complete special audit-based practical training under the AIA, an accountancy qualification which is recognised by the UK Government under that Act as a recognised professional qualification for statutory auditors in the UK.

AIA members are fully professionally qualified to undertake accountancy employment in the public and private sectors.

Opening Comments

AIA is supportive of the amendments proposed in the ED to include certain additional exemptions in IFRS 1 so that first-time adopters from the jurisdictions that are expected to adopt IFRS in the forthcoming years are able to prepare financial statements that meet the objective of IFRS 1. The additional exemptions proposed are:

- deemed cost for oil and gas assets, and disclosures relating to those assets
- changes in existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment
- deemed cost for assets used in operations subject to rate regulation, and
- determination of whether or not an arrangement involves a lease

However, AIA believe the reference to the industry-specific nature of the exemptions being proposed is a departure from the principle-based, generic approach previously adopted in IFRS 1 which might open up IFRS 1 to more exemptions being added.

Question 1 – Deemed cost for oil and gas assets

The exposure draft proposes that an entity that used full cost accounting under its previous GAAP may elect, at the date of transition to IFRSs, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP and to measure oil and gas assets in the development or production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date.

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?

AIA agrees with the proposed deemed cost option for entities using full cost accounting under previous GAAP in the ED as the information necessary to comply with IFRS on transition may be either unobtainable or to obtain it may result in costs exceeding the benefits.

AIA also agrees that a mandatory impairment test shall be required when an entity uses the deemed cost option based under previous GAAP to enable the transition to accounting under IFRSs.

AIA agrees with the IASB proposal in the ED to recognise directly in retained earnings any difference between decommissioning, restoration and similar liabilities arising in respect of oil and gas assets measured at transition date in accordance with IAS 37.

Question 2 Oil and gas assets – disclosure

The exposure draft proposes that if an entity uses the exemption described in Question 1 above, it must disclose that fact and the basis on which it allocated the carrying amounts to the underlying assets.

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

AIA agrees with the proposed disclosure requirements relating to the deemed cost option for oil and gas assets.

Question 3 – Deemed cost for operations subject to rate regulation

The exposure draft proposes an exemption for an entity with operations subject to rate regulation. Such an entity could elect to use the carrying amount of items of property, plant and equipment held, or previously held, for use in such operations as their deemed cost at the date of transition to IFRSs if both retrospective restatement and using fair value as deemed cost are impracticable (as defined in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors).

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?

AIA agrees with the proposed deemed cost option for entities with operations subject to rate regulation only if it is impracticable to comply with existing IFRS (as defined in IAS 8) and supports the requirement for a mandatory impairment test when an entity takes advantage of the proposed exemption.

Question 4 – Leases

The exposure draft proposes that if a first-time adopter made the same determination under previous GAAP as that required by IFRIC 4 Determining whether an Arrangement contains a Lease but at a date other than that required by IFRIC 4, the first-time adopter need not reassess that determination when it adopts IFRSs.

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?

AIA agrees with the proposal that, when a first-time adopter has made the same determination under previous GAAP as that required by IFRIC 4 – Determining whether an Arrangement contains a Lease but at a date other than that required by IFRIC 4, the first-time adopter is not required to reassess that determination when it adopts IFRSs.

Question 5 – 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.

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?

AIA agrees that the situation referred to in Question 4 is the only one in which additional relief of this type is needed.