The South African Institute of Chartered Accountants

23 January 2009

International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

Email: CommentLetters@iasb.org

Dear Sir/Madam

SAICA SUBMISSION ON EXPOSURE DRAFT – *ADDITIONAL EXEMPTIONS FOR FIRST-TIME ADOPTERS*: *PROPOSED AMENDMENTS TO IFRS 1*

In response to your request for comments on the IASB's exposure draft, *Additional Exemptions for First-time Adopters – Proposed Amendments to IFRS 1*, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA). Please note that SAICA is not only a professional body, but also secretariat for the Accounting Practices Board (APB), the official standard-setting body in South Africa. The SAICA comment letter results from deliberations of the Accounting Practices Committee (APC), which is the technical advisory body to the APB.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Accounting

cc: Moses Kgosana (Chairman of the Accounting Practices Board)
Prof Alex Watson (Chairman of the Accounting Practices Committee)

SAICA SUBMISSION ON EXPOSURE DRAFT – ADDITIONAL EXEMPTIONS FOR FIRST-TIME ADOPTERS: PROPOSED AMENDMENTS TO IFRS 1

GENERAL COMMENTS

Overall, we agree with the amendments proposed by the exposure draft subject to our comments below under each question.

SPECIFIC COMMENTS

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?

While we agree with proposals that make it easier for an entity to move to IFRS on the basis that the effort and the associated cost to otherwise comply with IFRS 1 at the date of transition would exceed the related benefits, we have some concerns regarding this proposal.

Firstly, we are not certain of the Board's reason to limit the proposed exemption to only oil and gas assets, seeing that in IFRS 6 – *Exploration for and Evaluation of Mineral Resources*, oil and gas assets are not separated from other exploration and evaluation assets. In our reading of this exemption, using oil and gas assets is broader than exploration and evaluation assets as discussed in IFRS 6 as the proposals extend to development and production. We do not think the proposals adequately explain this distinction and rationale therefore.

Secondly, there may be other cases where full cost accounting is used and where this exemption should also be allowed. We therefore recommend that the Board consider broadening the scope of the exemption in order to include all instances where full cost accounting is used. If the Board does not decide to broaden the scope, then to clearly explain in the Basis for Conclusions the reasoning behind the narrow scope.

Thirdly, the proposed exemption does not require a first-time adopter to only use this exemption in circumstances where determination of cost or fair value is impracticable. We believe the proposed exemption should include a requirement to only use this option when it is impracticable to determine the cost or fair value of the various assets, as it may be possible in some circumstances to determine cost or fair value of oil and gas assets. This suggestion is in line with the approach proposed for operations subject to rate regulation.

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?

Yes, we agree with this proposal on the basis that the users of the first IFRS financial statements should be able to understand the manner in which the carrying amounts of oil and gas assets were determined on the date of transition.

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?

Yes, we agree with the proposed deemed cost option for property, plant and equipment relating to entities subject to rate regulation. However, we note that the question posed indicates that the use of this exemption is permissible only where retrospective restatement and the use of fair value as deemed cost is impracticable. The wording in the proposed IFRS 1.19B is not as explicit as in the question. We believe that the requirement to demonstrate the impracticability of retrospective restatement and fair value should be articulated in paragraph 19B as it has been posed in the question.

In order to apply the exemption, an entity must demonstrate that it is impractical to obtain fair value. Often where fair value is not determinable in an active market, valuation techniques such as the discounted cash flow method are used. In some cases, depreciated replacement cost is used as a proxy for fair value and in many instances is readily available. We are not clear if the intention of the Board is that methods such as discounted cash flow and depreciated historic cost are first considered or whether the exemption should only be used if fair value is not determinable in an active market. If the former interpretation is used, this could limit the ability of a first-time adopter to apply the 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?

Yes, we agree with this proposal. However, we believe the proposed paragraph should state that where the terms of the original lease agreement have changed, a first-time adopter should re-assess the agreement at the date of transition. This rationale is supported by IAS 17.13, which requires a reassessment of a lease in circumstances where the lessee and the lessor agree to change the provisions of a lease agreement.

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?

Yes, we agree and we concur with BC14.