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

Dear Sirs

Comments on Proposed Amendments to IFRS 1: "Additional Exemptions for First-time Adopters"

Institute of Professional Accountants of Russia is pleased to present its comments on the exposure draft of proposed amendments to IFRS 1 "First-time Adoption of IFRS: "Additional Exemptions for First-time Adopters".

Additional exemption # 1

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. When an entity uses this election, it would test the allocated amounts for impairment at the date of transition to IFRS and disclose the basis for that allocation.

Question 1—Deemed cost for oil and gas assets

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?

We agree with the Board's proposal.

Question 2—Oil and gas assets—disclosure

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

We agree with the Board's proposal.

Additional exemption # 2

An entity with operations subject to rate regulation 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 fair value as deemed cost are impracticable (as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).

Question 3—Deemed cost for operations subject to rate regulation

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?

We do not agree with this additional exemption as using the carrying amount of property, plant and equipment as their deemed cost at the date of transition to IFRSs may lead to significant distortion of the carrying value of property, plant and equipment in the financial statements and also to significant inconsistencies between IFRS reporters in different countries. For example, two companies working in the same industry/sector in different countries (both having rate regulation regime but in one of the countries adjustments to carrying amount of property, plant and equipment are not allowed under its local GAAP) may produce significantly different results under IFRS if a company in the country where adjustments are allowed states that both retrospective restatement and fair value as deemed cost are impracticable and elects to use the carrying amount of PP&E as their deemed cost at the date of transition to IFRSs.

Further, we do not agree that both alternatives proposed by current version of IFRS 1, namely retrospective restatement and fair value as deemed cost, are often impracticable. We might agree that these alternatives are costly and in many cases are not easy to apply but they are not impracticable in vast majority of the cases.

For example, a similar difficulty in Russia was a local GAAP requirement that has existed for many years to revalue property, plant and equipment based on indices set by the government. Therefore, local GAAP value of property, plant and equipment was neither historical cost nor was broadly comparable to fair value. Those Russian companies and groups that were not able to extract information about historical cost of their property, plant and equipment have successfully used the “fair value as deemed cost” exemption in their first IFRS financial statements, including companies in industries/sectors with regulated tariffs.

We believe that if the Board decides to introduce this exemption it would logically need to introduce exemptions in a number of similar cases where significant differences exist between local GAAP and IFRS. We do not view such an approach as leading in the right direction: an exemption is only necessary in cases where cost of preparation of certain information significantly exceeds benefits from this information. In our view, the latter is not the case in this situation.

Additional exemption # 3

If a first-time adopter made the same determination under previous GAAP as that required by IFRIC 4 but at a date other than that required by IFRIC 4, the first-time adopter need not reassess that determination when it adopts IFRSs.

Question 4—Leases

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 agree with the Board’s proposal

We will be pleased to provide any additional information and explanations as you may require. In this regard please contact Sergey Ischouk at sischouk@deloitte.ru .

Sincerely,
Sergey Ischouk
Chairman
IFRS Committee