The Institute of
Chartered Accountants
of Pakistan

HEAD OFFICE

International Accounting Standards Board, January 13, 2009

30 Cannon Street, London EC4M6XH,

United Kingdom

Subject: **COMMENTS ON EXPOSURE DRAFT OF 'ADDITIONAL EXEMPTIONS FOR FIRST-TIME ADOPTERS (PROPOSED AMENDMENTS TO IFRS 1)'**

Sir,

The Institute of Chartered Accountants of Pakistan welcomes the opportunity to offer comments on the above mentioned exposure draft.

Please find enclosed the comments of the relevant Committee of the Institute for your perusal.

If you require any further clarification, please do not hesitate to contact us.

Yours faithfully,

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COMMENTS ON EXPOSURE DRAFT OF 'ADDITIONAL EXEMPTIONS FOR FIRST-TIME ADOPTERS (PROPOSED AMENDMENTS TO IFRS 1)

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.

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 deemed cost option seems to be most practical in view of the difficulties which will be faced on arriving at cost under the IFRS. This is also in line with the option allowed for PPE in case of entities other than in oil and gas sector. The deemed cost option has helped adoption of IFRS and in a few years time all entities would be on equal footing as these assets are depreciated.

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.

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?

The required disclosures are necessary to enable the users to understand the differences.

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).

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?

If a restatement is not practicable there seems to be no other option but to accept these as deemed cost.

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.

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?

If a correct option has been used it would not make much difference to go back in time.

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.

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?

The relief should be extended to other situations. An other specific situation may be of IFRIC 12 Service Concession Arrangements, which sets out general principals on recognizing and measuring the obligations and related rights in service concession arrangements.

If at the date of transition to IFRS, the accounting is in accordance with IFRS, the date when the IFRS became effective should not make much of a difference. Therefore, this option should be extended to other items other than IFRIC 4. However, a minimum period for IFRS accounting being applicable before the date of transition be set e.g. the accounting under IFRS should have been applied at least three years before the date of transition, other than the accounting for which IFRS has been effective for less than three years, to allow the entity not to reassess the position. This would help in avoiding change to accounting just before the transition. For transactions which are not in accordance with IFRS, restatement requirement should continue.

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