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Website: www.iasb.org
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Sir David Tweedie, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear David Tweedie:

RE: Response to "Additional Exemptions for First-time Adopters (Proposed Amendments to IFRS 1)" Exposure Draft

Thank you for the opportunity to provide feedback on the exposure draft regarding Additional Exemptions for First-time Adopters and the proposed amendments to IFRS 1.

We strongly agree with the option for entities with operations subject to rate regulation to use the carrying amount of property, plant and equipment as their deemed cost at the date of transition to IFRSs. However, we disagree that the exemption only be available if both retrospective restatement and using fair value are impracticable.

The exemption is appropriate because the costs capitalized under previous GAAP that are not permissible under IFRSs, are not readily identifiable for large, long term complex assets. Similarly, fair values of the types of specialized assets used in the delivery of rate regulated utilities are not available. There is no active market for these types of assets. The asset costs, which include certain capitalized costs approved by rate regulators, are recoverable from future revenues due to the very fact of rate regulation.

It is noted that the requirement to prove the impracticability of retroactive restatement and the determination fair value is not a condition of other exemptions offered to first time adopters of IFRS. The extra burden on rate regulated industries to meet the condition of impracticability would cause them to incur excessive cost, with no benefit to stakeholders.

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We also disagree with the requirement that the IAS test for impairment be applied on an item by item basis. IAS 36 outlines the indicators for assessing impairment; there should not be further requirements stipulated in IFRS 1, as it will lead to inconsistent application of IAS 36.

We agree with the proposal to not require the reassessment of whether an arrangement contains a lease, if a first time adopter made the same determination under previous GAAP as that required by IFRIC 4. This exemption, however, should be implemented as an overarching principle to any such situations where an identical standard has been adopted prior to the conversion to IFRS. We also recommend that the transitional provisions not be required to be identical, in the interest of avoiding unnecessary and excessive costs associated with adopting IFRS.

In order to be an effective set of standards for application in diverse industries internationally, IFRS must be principle based as opposed to rules based, to ensure consistent application. In keeping with a principle based approach, exemptions offered to first time adopters in IFRS1 should not have additional conditions for assets of rate regulated operations where none are required in similar exemptions.

At this time we would also recommend an additional exemption for first-time adopters of IFRS. Where previous GAAP or national standards are different from IFRS, and that standard is under review by the IASB at the time of the organization's adoption of IFRS, the organization should be exempt from adopting the IFRS, until the review of that standard is finalized by the IASB.

Responses to specific questions posed in the exposure draft are attached. Should you have any comments or questions, please contact me at (250) 387-6692 or by e-mail: Cheryl.Wenezenki-Yolland@gov.bc.ca, or Carl Fischer, Executive Director, Financial Reporting and Advisory Services Branch, at (250) 356-9272 or by e-mail: Carl.Fischer@gov.bc.ca.

Sincerely,

Cheryl Wenezenki-Yolland, CMA, FCMA
Comptroller General
Province of British Columbia, Canada

encl.

cc: Carl Fischer, Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General

Nick Paul, Deputy Secretary to the Treasury Board
Ministry of Finance

Chris Trumpy, Deputy Minister
Ministry of Finance

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?

The Province of British Columbia, Canada does not have oil and gas assets, so we do not have comments on the specifics of the proposal or whether there are other aspects of IFRS that are impracticable to implement. However, we agree with the Board's stated intention of avoiding excessive cost in the adoption of IFRS, and suggest that it be reinforced that this principle applies to all aspects of conversion to IFRS where cost well outweighs the benefits.

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?

We agree that when an exemption is used, appropriate disclosure be required.

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?

We agree with the option for entities with operations subject to rate regulation to use the carrying amount of items of property, plant and equipment as their deemed cost at the date of transition to IFRSs. However, we disagree that the exemption only be available if both retrospective restatement and using fair value are impracticable.

We also disagree with the requirement that the IAS test for impairment be applied on an item by item basis. IAS 36 outlines the indicators for assessing impairment; there should not be further requirements stipulated in IFRS 1, as it will lead to inconsistent application of IAS 36.

Comment on Impracticability Restriction

We strongly disagree with the restriction that the carrying amount be the deemed cost only if both retrospective restatement and using fair value are impracticable. This additional hurdle is not required in any other exemptions for first time adopters of IFRS.

The extra burden on rate regulated industries to have to prove the impracticability of both retroactive restatement and determining fair value would cause them to incur excessive cost with no benefit to stakeholders.

As worded, the proposed "exemption" provides no greater relief to entities with property, plant and equipment used in rate regulated operations than afforded by the principles of avoiding excessive cost and impracticability. The exercise of pursuing fair value information for these assets and the requirement to demonstrate impracticability or retrospective restatement would in itself be cost prohibitive, given the very specialized nature of the assets for which there is not an active market.

The rationale for allowing the carrying amount of PPE assets used in operations subject to rate regulation, as deemed cost on conversion to IFRS, is the same for that of the exemption offered to entities that used full cost accounting for oil and gas assets under its previous GAAP. Amounts that have been capitalized over the years, that are not consistent with IFRSs, are not readily separated from the carrying cost of large, complex specialized assets.

Suggested Wording

Section 19B should be amended by removing the phrase "*if it is otherwise impracticable (as defined in IAS 8) to meet the requirements of this IFRS*" and "*each item for which this exemption is used*" as follows:

19B Some entities hold, or have previously held, items of property, plant and equipment for use in operations subject to rate regulation. The carrying amount of such items sometimes includes amounts that were determined under previous GAAP but do not qualify for capitalisation in accordance with IFRSs. If this is the case, a first-time adopter may elect to use the carrying amount of such an item at the date of transition to IFRSs. ~~***if it is otherwise impracticable (as defined in IAS 8) to meet the requirements of this IFRS.***~~ *An entity shall apply this election item by item. At the date of transition to*

IFRSs, an entity shall test ~~each item for which this exemption is used~~ for impairment in accordance with IAS 36 and, if necessary, reduce the carrying amount. For the purposes of this paragraph, operations are subject to rate regulation if they provide services or products to customers at prices (ie rates) established by legislation, an independent regulator or other authorised body that are designed to recover the cost of providing the services or products and allow the entity to earn a determined return on investment.

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?

We agree with the proposal to not require the reassessment of whether an arrangement contains a lease if a first time adopter made the same determination under previous GAAP, as that required by IFRIC 4.

However, the proposed exemption may be interpreted to apply only to entities that applied the identical GAAP on a retrospective basis, as was the IFIC 4 requirement. In the interest of avoiding unnecessary and excessive costs associated with adopting IFRS, we recommend that the wording be changed in IFRIC 4 to allow first-time adopters that made the same determination under previous GAAP, an exemption from reassessment on transition to IFRS.

IFRIC 4 ***Determining whether an Arrangement contains a Lease***
*IG206 Paragraph 25F of IFRS 1 provides a transitional exemption in addition to that discussed in paragraph IG205. If an entity applied previous GAAP requiring a determination identical to that required by IFRIC 4 and that previous GAAP had ~~**transitional provisions**~~ assessment criteria identical to those in IFRIC 4(the result being that the only differences in accounting is a different effective date – either retroactive or prospective -from the one in the transitional provisions of IFRIC 4) that entity may elect to use the determination in accordance with the previous standard.*

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?

We do not agree that the situation referred to in question 4 is the only one in which additional relief of this type will <u>ever</u> be needed.

In the future, additional jurisdictions may decide to adopt IFRS as the primary source of GAAP. There may be other standards in place at that time that had been incorporated into the GAAP of those jurisdictions that are not currently contemplated. Any circumstances where they had followed an identical standard would warrant the exemption from reassessment upon adoption of IFRS.

Only allowing the exemption for one standard, while there may be other similar circumstances now or in the future, creates a narrow, rules-based accounting policy that will not yield consistent application. The IASB will need to consider modifying IFRS guidance for each circumstance as it arises.

Therefore we recommend that the IASB adopt a principle based policy that applies to any such standard previously implemented by first time adopters of IFRS. An overarching policy would allow first time adopters to avoid the additional cost of reassessment, IASB to not revisit the principle on a standard by standard basis, and achieve consistent interpretation and application over time.