International Accounting Standards Board®

Press Release

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IASB ISSUES A STANDARD ON TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Following recent decisions by various jurisdictions to adopt International Financial Reporting Standards (IFRSs), more than 90 countries will either require or permit the use of IFRSs during the next five years. Thousands of companies throughout the world will be making a transition in financial reporting by breaking away from national practices and changing to accounting standards set by the International Accounting Standards Board (IASB). To help companies making this change, and to enable users of company reports to understand the effect of applying a new (in some cases, completely new) set of accounting standards, the IASB today issued IFRS 1 *First-time Adoption of International Financial Reporting Standards*, which explains how an entity should make the transition to IFRSs from another basis of accounting.

The IASB through IFRS 1 has sought to address the demand of investors to have transparent information that is comparable over all periods presented, while giving reporting entities a suitable starting point for their accounting under IFRSs. In developing the standard, the IASB consulted interested parties throughout the world and paid particular attention to the need to ensure that the cost of compliance with the new requirements does not exceed the benefits to users of the financial information. The standard is based on the proposals published as an exposure draft ED 1 in July last year, and contains changes that the IASB has made in the light of the 83 comment letters it received.

IFRS 1 requires an entity to comply with every IASB standard in force in the first year when the entity first adopts IFRSs, with some targeted and specific exceptions after consideration of the cost of full compliance. Under IFRS 1, entities must explain how the transition to IASB standards affects their reported financial position, financial performance and cash flows.

Introducing the standard, Sir David Tweedie, IASB Chairman, said:

> "IFRS 1 is very timely, because demand is growing for high quality international standards set by the IASB. Thousands of companies throughout the world will be required to adopt IFRSs in the coming years, and the requirements in IFRS 1 are designed to ease the transition for all concerned and to ensure that users of accounts are given high quality information. This is the IASB's first completely new standard—several more will follow in the next year. We're on our way!"

Sir David also emphasised the role that national bodies play in the IASB's deliberations: "The French Conseil National de la Comptabilité (CNC) has participated actively and has made a significant contribution in the development of IFRS 1. The IASB has benefited greatly from its input."

Copies of IFRS 1 *First-time Adoption of International Financial Reporting Standards* (ISBN 1-904230-19-9 (three-part set) are available, at £15 each (€24/US$23) including postage, from: IASCF Publications Department, 1st Floor, 30 Cannon Street, London EC4M 6XH, United Kingdom. Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749 Email: publications@iasb.org.uk Web: www.iasb.org.uk

Subscribers to the IASB's Comprehensive Subscription Service can view IFRS 1 from the secure online services area of the IASB's Website (www.iasb.org.uk).

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NOTES TO EDITORS

About IFRS 1

1 IFRS 1 applies when an entity adopts IFRSs for the first time, by an explicit and unreserved statement of compliance with IFRSs.

2 To create a starting point for its later accounting under IFRSs, an entity adopting IFRSs for the first time (a *first-time adopter*) needs to prepare an *opening IFRS balance sheet* at the *date of transition to IFRSs* (the beginning of the earliest period for which it presents full comparative information under IFRSs in its first IFRS financial statements). For example, if an entity's first IFRS financial statements are for the year ended 31 December 2005, it will need to prepare an opening IFRS balance sheet at 1 January 2004.

3 In general, IFRS 1 requires a first-time adopter to comply with each IFRS that has come into effect at the reporting date for its first IFRS financial statements (31 December 2005 in the above example). In particular, it requires a first-time adopter to do the following in its opening IFRS balance sheet:

- recognise all assets and liabilities whose recognition is required by IFRSs.
- not recognise items as assets or liabilities if IFRSs do not permit such recognition.
- classify all recognised assets and liabilities in accordance with IFRSs.
- apply IFRSs in measuring all recognised assets and liabilities.

4 IFRS 1 grants a first-time adopter limited exemptions from these requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements.

5 IFRS 1 applies if an entity's first IFRS financial statements are for a period beginning on or after 1 January 2004, although earlier application is encouraged. It replaces SIC-8 *First-time Application of IASs as the Primary Basis of Accounting*. Like SIC-8, the IFRS requires retrospective application of IFRSs in most areas. Unlike SIC-8, the IFRS:

- includes some targeted exemptions.
- clarifies that an entity applies the latest version of IFRSs and specifies that the transitional provisions in other IFRSs do not apply to a first-time adopter, except for transitional provisions in IAS 39 *Financial Instruments: Recognition and Measurement* on hedge accounting and derecognition.
- clarifies how a first-time adopter's estimates under IFRSs relate to its estimates for the same date under previous GAAP.
- requires enhanced disclosure to explain how the transition to IFRSs affected the entity's reported financial position, financial performance and cash flows.

6 The IASB has published IFRS 1 together with two separate booklets. The first contains the IASB's Basis for Conclusions, which sets out the IASB's reasoning for the requirements in the IFRS; the second consists of implementation guidance.

About the IASB

7 The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central

and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) reside in nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world.

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