



Institute of
CHARTERED ACCOUNTANTS
of New Zealand

30 October 2002

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

Dear Sir or Madam

ED 1 FIRST TIME APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Financial Reporting Standards Board (FRSB) of the Institute of Chartered Accountants of New Zealand is pleased to submit its comments on Exposure Draft 1 which was issued in July 2002.

Although the FRSB focussed on the specific questions raised in the Exposure Draft, comments are also provided in respect of some of the proposals not specifically addressed by the questions.

If you have any queries, or require clarification of any matters in the submission, please contact Sanel Tomlinson (sanel.tomlinson@icanz.co.nz) or me (tony.vanzijl@icanz.co.nz) at the Institute of Chartered Accountants of New Zealand.

Yours faithfully

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EXPOSURE DRAFT 1 (ED 1) FIRST TIME APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

OVERALL COMMENTS

Except for the concern regarding the conflicting requirements in paragraph 13, overall the FRSB supports the proposals in ED 1.

The FRSB has adopted a policy of convergence with IFRSs, which will include any standard resulting from ED 1. The FRSB notes that in the convergence process entities will progressively apply national standards that are consistent with IFRSs, i.e. such entities effectively adopts IFRSs as their bases of accounting. The entities will, however, still be required to comply with the requirements of this standard when they make the “explicit and unreserved” statement of compliance with IFRSs in their financial statements. The concern raised by the FRSB is that this requirement could impose undue costs and efforts on such entities.

SPECIFIC QUESTIONS

Question 1

The proposed IFRS would apply when an entity first adopts International Financial Reporting Standards (IFRSs) as its new basis of accounting, by an explicit and unreserved statement of compliance with all IFRSs (paragraphs 1-5 and paragraphs BC4-BC10 of the Basis for Conclusions).

Is this an appropriate description of the circumstances when this proposed IFRS should apply? If not, what changes would you suggest, and why?

Except as noted below, the FRSB considers the description of the application of the proposed IFRS to be appropriate.

Paragraph 2(a)(ii) — The FRSB considers that where an entity complies with IFRSs in all respects, except that the financial statements do not contain the explicit statement of compliance with IFRSs, such entity should not be regarded as a “first time adopter” since it had previously adopted IFRSs as its basis of accounting. To require full retrospective application by such an entity would result in undue costs with no real benefit. The FRSB therefore recommends that paragraph 2(a)(ii) be deleted.

Paragraph 4(b) — As a consequence of the recommendation in respect of paragraph 2(a)(ii), the FRSB considers that entities that presented its most recent previous financial statements in conformity with IFRSs in all respects, except for the explicit and unreserved statement of compliance, should be allowed to apply the transitional provisions available to other entities that already use IFRSs as the basis of their accounting.

Paragraph 5 — The FRSB agrees with the proposal in respect of the treatment of “first-time adopter subsidiaries”. It should, however, be noted that if the exemption is used in respect of a material subsidiary, the objectives of transparent and comparable financial statements could not be met.

The FRSB recommends that where an entity applies the exemption, it should include additional disclosures such as the nature of main adjustments that would make the data comply with IFRSs (also refer Historical Summaries, paragraph 36).

Question 2

The proposed IFRS proposes a requirement that an entity shall prepare its opening IFRS balance sheet using accounting policies that comply with each IFRS effective at the reporting date for its first IFRS financial statements. Paragraphs 13-24 propose limited exemptions from this requirement.

Are all of these exemptions appropriate? Should the Board amend any of these exemptions or create any further exemptions (paragraphs BC11-BC89)? If so, why?

Except as noted below, the FRSB considers the exemptions to be appropriate.

Paragraph 14 — (REFER DISCUSSION ON PARAGRAPH 13 UNDER QUESTION 4)

The FRSB considers that if the standard requires full retrospective application for all entities, it should allow discretion in respect of the use of the exemptions. The FRSB further recommends that entities be required to disclose whether it has used the exemptions and if so, which exemptions were used.

Heading to paragraph 16 — The FRSB considers that the heading to paragraph 16 should include a reference to “investment property” i.e. Property, Plant and Equipment (including Investment Property). Entities would not expect to find exemptions for investment properties if it is not specifically referred to in the heading.

Paragraph 18 — At the end of this paragraph, reference is made to “liabilities”. The exemptions discussed in this section relate to property, plant and equipment (including investment property). The FRSB considers that this reference either be deleted, or that the paragraph clarifies how this section be applied to liabilities.

Paragraphs 20 – 21 — The FRSB considers that the detail in paragraphs 20 and 21 be deleted from standard and replaced with a reference to appendix B similar to the reference to Appendix C in paragraph 24. If the IASB decides to retain the detail in the standard, the FRSB considers, for consistency with the presentation in Appendix B, that:

- paragraph 21 should be renumbered to paragraph 20(c); and
- paragraphs B1(a) and (e) should be included in the standard.

Paragraph 22 — The FRSB considers that confusion arises when this paragraph is read with the discussion in paragraphs BC46 – 47. Paragraph 22 states that “no actuarial gains or losses shall remain unrecognised” whereas paragraphs BC46 – 47 “...decided to require a ‘fresh start’ approach that eliminates unrecognised actuarial gains or losses at that date.” From the reading of paragraph 22 it appears that an entity using the exemptions would be

required to recognise previously unrecognised actuarial gains and losses, while the paragraphs in the basis for conclusions suggest that such gains/losses would be eliminated unless entity does not use the exemptions. The FRSB recommends that the wording in paragraph 22 be clarified.

Paragraph 24 — The FRSB considers that the hedging requirements (and similarly any measurement that relies on retrospective designation by management) should not be part of the exemptions, but that all entities should be required to apply the requirements prospectively from the date of transition to IFRSs. This would remove the possibility of practical implementation problems.

Question 3

Paragraphs 28-37 of the proposed IFRS deal with presentation and disclosure requirements (see also paragraphs BC90-BC97). Are all of these disclosures appropriate? Should the Board require any further disclosures or eliminate or amend any of the proposed disclosure requirements? If so, why?

Except as noted below and in the recommendations to the other questions, the FRSB considers the disclosures to be appropriate.

Paragraph 35(a) — The FRSB considers that the requirements in this paragraph would be included as part of reconciliation required by paragraph 31(a) and it is therefore not necessary for the standard to specifically require the disclosures.

Question 4

Do you have any other comments on the Exposure Draft?

Paragraph 13 – The underlying principle of the proposed standard is full retrospective application of all IFRSs effective at the reporting date for an entity's first IFRS financial statements. This principle is confirmed throughout the introduction, standard, basis for conclusions and implementation guidance. However, although paragraph 13 starts off with a reiteration of this principle, the conclusion of the paragraph disregards the principle and requires entities to apply the IFRSs effective in each period (i.e. could be required to consider superseded versions) if an entity does not use the exemptions. The effect of paragraph 13 as it currently stands, is to allow entities a choice as to the use of the exemptions in paragraphs 14 – 24. If an entity chooses to use the exemptions, it only needs to apply the latest version of the IFRSs, but should an entity decided not to use the exemptions, it will have to apply the IFRSs that were effective in each period – i.e. requirements of the standard would be more onerous for the latter entity.

The FRSB recommends that paragraph 13 be amended as follows:

- 1 The principle in paragraph 7 requires full retrospective application of all IFRSs effective at the reporting date for an entity's first IFRS financial statements. Paragraphs 14-24 permit limited exemptions from that principle, but do not require an

entity to use those exemptions. If an entity does not use the exemptions, paragraphs 14-24 do not apply. ~~and, in addition, the entity shall apply the IFRSs that were effective in each period and may, therefore, need to consider superseded versions of IFRSs if later versions required prospective application. By contrast, if an entity uses the exemptions, it shall apply only the latest version of IFRSs (paragraph 8).~~

Paragraph 3(c) — The FRSB considers that the paragraph should state that the auditors had issued a qualified audit report because, although the entity stated compliance with IFRS, the financial statements did not comply with all IFRSs. Therefore, the paragraph should be clarified so that it refers to qualification in respect of non-compliance with IFRSs and not to any other qualification. This paragraph provides further support for the recommendation on paragraph 2(a)(ii) above. An entity that fully complies with IFRSs (excluding the explicit statement) has more reason to argue that it is not a “first time adopter” than an entity that claims to comply (fully) with IFRSs, but in practice does not comply. This also creates opportunities to avoid application of the standard.

Paragraph 7 — The FRSB suggests the following amendment to the paragraph:
“...Those accounting policies shall comply with each IFRS applicable to the entity and effective at the reporting date...”