



LONDON INVESTMENT BANKING ASSOCIATION
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31 October 2002

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

By email to: CommentLetters@iasb.org.uk

Dear Sir

**Exposure Draft ED 1 First-time Application
of International Financial Reporting Standards**

I am writing on behalf of LIBA (the London Investment Banking Association) to comment on the above Exposure Draft. LIBA is, as you know, the principal UK trade association for investment banks and securities houses; a full list of our members is attached.

The comments below follow the structure of the questions set out in the "Invitation to Comment" section of the Exposure Draft.

Question 1

The proposed IFRS would apply where 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?

LIBA agrees with the scope proposed for the IFRS.

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?

LIBA agrees that an entity should apply each of the IFRS effective at the reporting date for its first IFRS financial statements. We do however have a number of concerns with the application of this principle as it is currently set out in the Exposure Draft.

Overall, we believe it would be more appropriate, particularly in a principles based accounting framework, to adhere to the principle set out in paragraph 7 (and reiterated in paragraph 13). Rather than attempting (as in paragraphs 14-24) to give precise criteria for a limited set of exemptions to this principle, we believe that *any* exemption should be allowed, but only in the very limited circumstances where “undue cost or effort” would prevent retrospective application or where, irrespective of the amount of cost or effort involved, the availability of information would mean that it could never be materially complete. Some or all of the exemptions in paragraphs 14-24 could then be included as examples of these limited circumstances.

In the event that the Board retains the current model, we have the following additional comments:

- We fail to understand why there should be a connection between the application of the exemptions in paragraphs 14-24 and the ability to follow the principle in paragraph 7, as stated in paragraph 13, to use IFRS current at the balance sheet date. The decision to use exemptions should be made independently of any link to the use, or otherwise, of superseded versions of IFRS.
- We do not believe it is appropriate that the exemptions provided in paragraph 14 should be considered as an all or nothing option. The exemptions listed are not interdependent and we can see no benefit to users of accounts in applying all of these exemptions irrespective of the individual circumstances of the specific entity.
- We believe that each exemption should be applied to each specific set of circumstances. In particular, we do not believe it is appropriate to apply the paragraph 20 exemption (relating to IAS 22 Business Combinations) to all business combinations. For more recent transactions, the information may be available to apply IAS 22 retrospectively, in which case this may be a more appropriate representation.

Consistent with our 14 October letter on the Exposure Draft of Proposed Amendments to IASs 32 and 39 (see our response to Question 10, on page 19), we do not believe it is appropriate to require the application of the proposed derecognition requirements to all transactions prior to the adoption of this Exposure Draft. Particularly given the complex proposals in the Amendments exposure draft, the comprehensive analysis that would be needed to comply with these requirements will almost certainly result in “undue cost or effort” and may also result in providing information that is so incomplete that it will actually be misleading to users of financial statements. We

therefore believe that, if the proposed exemptions are retained, a similar exemption should be included for recognition of financial instruments.

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?

We agree with the presentation and disclosure proposals in paragraphs 28-37. In addition, we believe that, where an entity has applied any exemption in the limited circumstances we have proposed above, narrative disclosure should be included to alert the user to this fact. Requiring numerical disclosures would be inappropriate in these circumstances, as it is the lack of availability of that information that would permit the exemption in the first place.

Question 4

Do you have any other comments on the Exposure Draft?

Appendix C provides guidance on how to apply the hedge accounting requirements of IAS 39 on initial adoption of International Accounting Standards. We are concerned that the current drafting of paragraph C3(a) implies that an entity cannot reassess which assets and liabilities will follow hedge accounting when the entity shifts from its current GAAP to IAS. Particularly given that financial assets and liabilities may be classified, and therefore measured, differently under IAS compared to the entity's current GAAP, we believe it is important that an entity can also reassess any hedging relationships that may exist at the time of adoption. If this was the Board's intention, then the drafting should be made clearer.

Overall, we are disappointed that, particularly given this will be a new IFRS, the Exposure Draft appears unnecessarily complex and that much of the drafting appears unclear and convoluted. It is therefore possible that we have not identified all the concerns we may ultimately have with an IFRS issued in this form.

I hope that these comments are helpful. We would of course be very pleased to expand on any particular points if there are aspects which you find unclear, or where you would like further details of our views.

Yours faithfully

Ian Harrison

Ian Harrison
Director

LONDON INVESTMENT BANKING ASSOCIATION

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BNP Paribas
Bank Insinger de Beaufort plc
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Beeson Gregory Limited
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