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Sir David Tweedie
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10 December 2002

Dear David

ED 1 'First-time Application of International Accounting Standards'

This letter sets out the views of the ASB on ED1 'First-time Application of International Accounting Standards'.

There is one issue that the ASB believes requires further consideration.

First time implementation of IAS 39

The ASB supports the exposure draft's proposals that an entity shall apply the hedging requirements of IAS 39 *Financial Instruments: Recognition and Measurement* prospectively from the date of transition to IFRS. We are, however, concerned as to how the proposal will work in practice, bearing in mind the IAS 39 Amendments Project is not expected to be completed until Quarter 2 2003 and the requirement for US listed entities to present two years of comparative information.

The ED states that the date of transition to IFRS is the beginning of the earliest comparative period presented in an entity's first IFRS financial statements. It also states that there should be at least one comparative period and any additional comparative shall comply with IFRS. As US listed entities are required to present two years of comparative information, this means that the transition date could be as early as 1 January 2003.

Under the ED, an entity has a choice of applying the version of IAS 39 effective at the reporting date of its first IFRS financial statements to all periods presented, or of applying the versions that were effective in each accounting period. A US listed entity with a 31 December year-end (ie. a transition date of 1 January 2003) therefore has a choice:



- (a) It can prepare its 2005 financial information, and two years of comparatives, using the 1 January 2005 version of IAS 39's hedge accounting requirements. This would mean gathering, from 1 January 2003, information necessary to comply with a standard that will not be issued until well into 2003. That does not seem very satisfactory.
- (b) It could prepare its 2005 financial information using the 1 January 2005 version of IAS 39 and its comparatives using the versions that were in effect at that time. Assuming this means using existing IAS 39 to prepare at least the 2003 comparatives, this would require the entity to put systems in place to ensure compliance with a standard that will soon be replaced. Again, this not does seem very satisfactory.

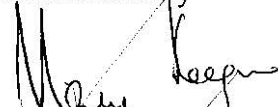
Furthermore, US experience suggests it will take many entities a couple of years to build the systems necessary to enable compliance with IAS 39's hedging requirements. If systems will not be ready until the end of 2004, it seems unrealistic to expect entities to apply these systems to transactions that may have taken place nearly two years earlier.

The ASB therefore believes that this aspect of the ED needs to be reconsidered. We suggest that the IASB might wish to consider the following possible approaches:

- (a) Redefining the transition date so that, to the extent that a standard (or part thereof) is to be applied retrospectively, its transition date will continue to be the beginning of the first comparative period (ie. 1 January 2003 in our example) and, to the extent that a standard (or part thereof) is to be applied prospectively, its transition date is the beginning of the period in which the first IFRS financial statements are prepared (ie. 1 January 2005 in our example). In addition amending the last sentence of paragraph 29 to "If the first IFRS financial statements include more than one year of comparative information, that additional comparative information shall comply with IFRS, except that an IFRS (or part thereof) should not be applied in preparing comparative information if its transition date is later then the opening balance sheet date of the comparative period"; or
- (b) Amending the last sentence of paragraph 29 as follows: "If the first IFRS financial statements include more than one year of comparative information, only the most recent year of comparative information shall comply with IFRS."

Naturally we would be pleased to enlarge on our comments if that would be helpful to IASB.

Yours sincerely


Mary Keegan
Chairman