



International Accounting Standards Board
33 Cannon Street
London
EC4M 6XH

31 October 2002

Dear Sirs

First time application of IFRS (ED1)

The Association of Chartered Certified Accountants (ACCA) is pleased to have this opportunity to comment on the above exposure draft (ED) published by IASB. The ED was considered at a recent meeting of ACCA's Financial Reporting Committee and I am writing to give you their views.

The ED clarifies an important issue for the very many companies which will be changing to International Financial Reporting Standards (IFRS) in the next few years.

ACCA's responses to the specific questions raised for comment by IASB are set out below.

Q1. The proposed IFRS would apply when an entity first adopts IFRS as its new basis of accounting, by an explicit and unreserved statement of compliance with all IFRS. Is this an appropriate description of the circumstances when this proposed IFRS should apply? If not, what changes would you suggest, and why?

We consider this definition is legalistic and rule-bound. Particularly the requirement in 2(a)(ii) which insists that financial statements which comply in all respects with IFRS, except for the omission of an explicit and unreserved statement to that effect, mean that these do not count as an application of IFRS.



The Association of Chartered Certified Accountants

29 Lincoln's Inn Fields London WC2A 3EE United Kingdom

tel: +44 (0)20 7396 7000 fax: +44 (0)20 7396 7070 www.accaglobal.com

Also the condition in paragraph 3(c) for an unqualified audit report is too broad. The audit qualification should only be relevant if the reason for qualification included non-compliance with IFRS.

Q2. 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 to 24 propose limited exemptions from this requirement. Are all these exemptions appropriate? Should the Board amend any of these exemptions or create any further exemptions? If so why?

The text actually includes a choice of treatments. In paragraph 13 the suite of standards effective at the reporting date can be used, or the standards as they would have applied in each of the restated years. This choice is not highlighted in the standard or in the questions posed for comment. The creation of an option in accounting standards is inherently undesirable. It seems from the explanation in the Basis for Conclusions that the choice is needed to deal with the consequences of the legalistic restrictions on first-time application noted in our answer to Q1 above. If these restrictions were lifted then the ED should simply require the IFRS effective at the first reporting date to be those used in the restatement, and not offer the second alternative.

We agree with the exemptions from restatement proposed by IASB. The exemption concerning business combinations may need some more explanation. Paragraph B1(e) prohibits recognition of negative goodwill in the opening balance sheet. It is not clear, however, what other values are to be adjusted to achieve this.

We consider that the following exemptions should be added on the grounds that the costs of a full restatement are unlikely to be justified by the benefit to the users.

- Previously derecognised financial instruments should not be required to be reinstated
- When entities have changed the basis on which income is recognised, including changes in accounting for construction contracts from a completed contract basis to a percentage of completion basis.

Q3. Paragraphs 28-37 of the proposed IFRS deal with the presentation and disclosure requirements. 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 disclosure requirements proposed. A clear and complete reconciliation between the previous accounts and the IFRS accounts will be important for users.

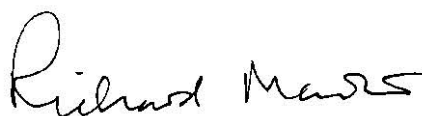
Q4. Do you have any other comments on the Exposure Draft?

As this is the first draft IFRS to be produced we have considered the style of the standard. We have two comments.

- The paragraph describing the objective of the standard is in the introduction and not part of the main text. This seems wrong as a clear objective would seem a key element of a principles-based standard, and so should be made part of the standard.
- The IASB should avoid an overly elaborate structure in their standards. Important elements should always be referred to in the main text of the standard and should not only be raised in an appendix. For instance the restriction concerning negative goodwill only appears in Appendix B. The material in Appendices B and C would be better incorporated as part of the standard. The appendices (application guidance and basis for conclusions) could then contain only non-mandatory material.

If there are any matters raised above where further explanation would be helpful, please be in touch.

Yours sincerely

A handwritten signature in cursive script that reads 'Richard Martin'.

Richard Martin
Secretary to the Financial Reporting Committee