

Date: 31 October 2002

Our Ref.: GW / MPB

International Accounting Standards
Board
30 Cannon Street
London
EC4M 6XH

Dear Sir

Responses to Consultation Paper 'IASB proposals for first-time application of international financial reporting standards'

We welcome the opportunity to comment on this consultation paper. We generally agree with the proposals contained in the paper. We have the following specific comments:

Q1 - We agree with the scope of the proposed IFRS and we have no comments in this area.

Q2 - We welcome many of the exemptions proposed in paragraphs 13-24 which will help smooth the difficult transition to IFRSs. We support the exemption in paragraph 20 that IAS 22 Business Combinations does not need to be retrospectively applied and the associated Example 4 in Appendix B clarifying that goodwill previously written off to equity does not now need to be capitalised. We also support paragraph 24 which allows entities to apply the hedging requirements of IAS 39 prospectively from the date of transition to IFRSs.

However, we disagree with the requirement in paragraph 14 that if an entity applies one exemption then it must apply them all to the extent that they are applicable. This seems unnecessarily inflexible to us. Our preferred approach would be to allow entities to select the exemptions they wish to apply, with a requirement to disclose which ones were used.

For example, we would want to take advantage of the exemptions in paragraphs 20 and 24, but we may not want to adopt paragraph 22 setting out the transitional adoption of IAS 19 'Employee Benefits'. Many companies will have pension schemes that were in surplus until a couple of years ago but are currently in deficit due to Stock Market conditions. If this situation were to remain at first time IFRS adoption then paragraph 22 would require a first time adopter to show the full deficit on their balance sheet with a corresponding reduction in equity. By contrast, a company already following IAS would show a liability only to the extent of any deficit outside

of the 10% corridor, and then the liability is built up over the average service life of the employees. Therefore, a first time adopter would be forced to report a much lower equity position than an identical company already using IAS, giving it a potential competitive disadvantage.

We believe that a more comparable treatment between companies on employee benefits would be achieved if no actuarial gains or losses were recognised on first time adoption. IAS 19 would then be applied prospectively, with gains/losses outside the 10% corridor being amortised over the expected service life of employees.

Q3 – We agree with the proposed disclosure requirements. In particular we welcome paragraph 36 which states that historical summaries do not need to comply with IFRSs.

Q4 – We have no further comments on the paper.

Yours faithfully

GARY WILKINSON

Director of Accounting and Taxation

Alliance & Leicester