



## **REDOVISNINGSRÅDET**

International Accounting Standards Board  
30 Cannon Street  
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United Kingdom

### Re: Exposure Draft ED 1 First-time Application of International Financial Reporting Standards

#### **General Comments**

##### ***Priority of objective***

1. It is stated in BC 14-16 that the draft concentrates on achieving comparability between entities adopting IFRS for the first time at a given date and that comparability between first-time adopters and entities already applying IFRSs is a secondary objective. Our opinion is that an increased importance should be given to investors' interests. From the investors' viewpoint it is as important to obtain comparability between first-time adopters and entities already applying IFRSs, as it is important to obtain comparability between first-time adopters. Our opinion is that this can be achieved better by annulling the requirement to apply all of the exemptions. The consequence of this current requirement is that departures from IFRSs are unnecessarily forced in cases in which the necessity to permit such an exemption occurs in conjunction with undue cost and effort in applying the new accounting principles to just one, single, area. We believe, for example, that better comparability is achieved between first-time adopters, as well as between a first-time adopter and others, if a first-time adopter restates historical business combinations in accordance with the requirements found in IAS 22, effective at the reporting date, even if the same entity uses the exemptions permitted to treat cumulative translation differences, on the basis of undue cost and efforts. The argument is that there are significant differences between previously applied local GAAPs in accounting for business combinations.
2. We also believe that it is more friendly to users if just one exemption is allowed without requiring the application of all of the other exemptions.

3. We, therefore, suggest that in the final version of the standard the wording is changed so that the noted exemptions are allowed individually on the basis of undue cost and effort.

#### ***Consistency with transitional provisions in other IFRSs***

4. The transitional provisions in some IASs specify prospective application. In the majority of such cases, the motive for prospective application seems to have been the difficulties, or perhaps rather, the impossibility, of retrospectively making judgements and estimates regarding future circumstances at a time at which the outcome of such circumstances is already known. Examples are the transitional provisions in IAS 36 and some of the circumstances noted in IAS 38. The draft does not seem to fully consider this aspect. For example, we understand that if an entity elects to apply the approach stated in paragraph 7 (and 9) the requirements should apply to all IFRS, i. e. the opening balance should comply with all of the recognition and measurement criteria in all IFRS, effective at the reporting date. This implies that the recognition criteria for intangibles should be applied retrospectively. It means also that impairment tests, impairment losses and reversals shall be made retrospectively. The "retrospective" concept has, in this context, two angles of approach. Paragraph BC 13 indicates that an entity should plan the transition to IFRS well in advance. Some preparers may be able to make judgements and estimates on or before the date of transition. However, for a European first-time adopter presenting comparative information for two years, which is mandatory if the entity has securities quoted in the US market, the "retrospective" concept has a different meaning. The European first-time adopter has to prepare an opening balance at January 1, 2003 and the preparation procedure will probably not start before the second quarter of 2003 when the final standard is to be issued. An impairment loss under IAS 36 occurring during 2002 or before, with a reversal in one of the years 2003-2005, will be difficult to treat. The judgements and estimates concerning future outcomes have to be made at a time when the outcomes are already known. Our opinion is that this is not possible.
5. In principle, we agree to the requirement of retrospective application as set out in paragraphs 7 and 9. However, we believe that a retrospective application in some cases is inexpedient, i.e. in most of the cases in which a retrospective approach has been dropped in IAS. Therefore, we suggest a re-evaluation of the categorical retrospective approach as drafted.

#### ***Text structure***

6. The draft includes paragraphs in bold type-face and plain type-face. According to the revised Preface the paragraphs in bold type-face indicate the main principles and the text in plain type-face have equal authority, also stated in the Preface. We believe that these two, different type-faces can be motivated if properly explained or when there is an understandable difference in the nature of the two types. In this context, we are unable to distinguish the characteristics of a main principles in the two paragraphs written in bold type in the draft, from the nature of some of the other paragraphs. We believe that the following sentences qualify as main principles and consequently for bold type-face: Paragraph 1 in full, paragraph 3 in full, the second sentence in paragraph 9 re-written, the first and second sentences in paragraph 10, the first sentence in paragraph 14, paragraph 34 in full and paragraph 38 in full.

7. In paragraph 7 the accounting policy is described, that is, that the opening balance shall comply with each IFRS effective at the reporting date. Paragraph 13 refers to the exemptions stated in paragraphs 14-24. We understand that an application of the requirements in paragraphs 14-24 represents a permitted alternative to applying of the requirements in paragraph 7. We suggest that these alternatives to be stated on a more equal terms in the final Standard.
8. Some of the requisite guidelines are to be found in the Appendix or Basis for Conclusion, instead of in plain type-face in the "main part" of the Standard. One example is the reference to Appendix B in paragraph 20. The appendix must be read in order to ascertain whether the entity should keep the classification of a business combination used under previous GAAP. An additional example is found in the wording of BC 46. Here, guidance is provided stating that a retrospective application of IAS 19, in accordance with paragraphs 7 and 9, would imply that actuarial gains and losses must be determined for each year since the inception of the pension plan. Furthermore, another example concerns selected historical data and is found in paragraph 36. It is clarified in BC 97 that paragraph 36 refers to historical data as found in the financial statements. We suggest that the necessary guidelines be integrated as a part of the Standard in the final IFRS.
9. The concept "undue cost and effort" is central in dealing with the issues found within the exemptions stated in paragraphs 14-24. We suggest that this concept be included in the definitions in the final IFRS and defined therein (Glossary).
10. It is very important that IASB in its first IFRS produce a document that is clearly written and that is user friendly. We believe there are reasons to reconsider the structure and the logical flow of the messages of ED 1. For example, there are difficulties in easily understanding the wording and the interpretations of paragraphs 5, 7, 8 and 13 and we believe that these difficulties are partly caused by the structure of the text. It is unclear as to the cases in which the different versions of IFRS, as is said in paragraphs 8 and 13, are to be applied, or are allowed to be applied.

## **Answers to 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?

### **Answer**

Yes.

### **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?

**Answer**

As noted above we have to some extent a different view. Refer to paragraphs 1-3 above.

**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?

**Answer**

We find these disclosures appropriate.

**Question 4**

Do you have any other comments on the Exposure Draft?

**Answer**

Yes, we have the following comments:

*Historical summaries.*

Paragraph 36 allows an entity to present selected historical data for periods before the transition date and allows these data to be presented without complying with the recognition and measurement requirements found in IFRSs. If such historical data could only be produced with undue cost and effort, our opinion is that no such data should be presented.

*Special issue for European first-time adopters*

A European first-time adopter has limited time to prepare the transition. We request that you consider this fact when determining the dates on which taking decision of when future IFRSs are to become effective.

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The Swedish Financial Accountings Standards Council

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