

## **Response to ASB Consultation Document on IASB proposals for first-time application of IFRS**

Q1. 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?

**Yes, we agree with paragraphs 1 – 5.**

Q2. The proposed IFRS suggests 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 the exemptions or create any further exemptions (paragraphs BC11 – BC89)? If so, why?

**Paragraph 20(b)(ii) requires an impairment test to be performed on goodwill, whether or not there is an indication of impairment. BC45 explains the rationale for this decision. We believe an entity should be exempted from the requirement to impairment test since this is overly onerous and does not satisfactorily address the ‘double-counting’ issue raised in BC45. In the event that additional assets are recognised relating to a previous business combination, this should be an exception to the transitional rule that previous business combinations are not revisited on implementation of IFRS. The adoption of IFRS should not simply be regarded as a trigger for impairment testing of goodwill.**

**Paragraph 23 allows a company to deem the cumulative translation difference under IFRS to be that, if any, determined under the entity’s previous GAAP if undue cost and effort would be involved in determining the correct figure. If this deemed difference is nil, because an entity was not required to maintain a record of such amounts under its previous GAAP, and is unable to trace them, presumably this is acceptable.**

**We believe the reference to IAS 39 in BC20(a) should be to paragraph 172(h) rather than 172 (g).**

Q3. Paragraphs 28 – 37 of the proposed IFRS deal with presentation and disclosure requirements (see also paragraphs BC90 – BC97). Are all of these disclosures appropriate?

**Yes.**

Should the Board require any further disclosures or eliminate or amend any of the proposed disclosure requirements? If so, why?

Paragraph 31: For a company with an SEC listing, adopting IAS for the first year in 2005 and producing two years of comparatives, paragraph 31(a) requires a reconciliation of equity as at 1 January 2003 and 31 December 2004. We believe the reader of the accounts would also wish to see a reconciliation as at 31 December 2003 and suggest that wording is added to require reconciliations at intervening year ends where more than one year's comparatives are given.

Similarly, paragraph 31(b) would require profit or loss reconciliations for 2004. We believe reconciliations should also be produced for other periods presented in the primary financial statements, i.e. 2003 in this example.

Paragraph 31(b) should clarify whether it is referring to profit after tax.

Paragraph 36 does not seem to require five-year summaries to comply with IFRSs. In any "*financial statements containing such summaries*" an entity is required to disclose the nature of the adjustments that would make the data IFRS compliant. BC97 refers to "*historical summaries included in financial statements*". We believe the scope of the above phrases in *italics* should be clarified, i.e. whether the disclosures apply to summaries appearing in the same annual report as financial statements or only to summaries in the financial statements on which auditors give their opinion.

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

We believe an entity should not be required to prepare comparatives complying with IAS 39 'Financial Instruments: Recognition and Measurement'. Such an exercise is unduly onerous and we believe entities should be able to apply IAS 39 prospectively from the beginning of the year of an entity's first IFRS financial statements. On introduction of FAS 133 'Accounting for Derivative Instruments and Hedging Activities', US companies were not required to restate comparatives.

Paragraphs 16 and 23 refer to 'undue cost and effort'. Should this concept be explained in the main body of the text rather than included in BC13?

Appendix B: B1(e) does not explain how an entity should report negative goodwill if the revised business combination standard is not applicable on first-time application of IFRS. This should be made explicit.