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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Dear David

ED 1 “First-time Application of International Financial Reporting Standards” As a follow-up to my letter dated 24 October 2002, the AASB staff offers two additional comment on ED 1 that have come to our attention in preparing the Australian Preface to the IASB’s ED 3 on Business Combinations, impairment and Intangible Assets.
Asset impairment

The existing Australian Standard on Impairment (AASB 1010 “Recoverable Amount of Non-Current Assets”) has an impairment test based on undiscounted cash flows and, accordingly, is less stringent than the test in IAS 36. However, AASB 1010 also requires non-current assets to be tested for impairment at each reporting date (a “one-step approach”), rather than the IAS 36 approach of testing for impairment only if there is an indication of impairment (a “two-step approach”).

An issue that is not explicitly dealt with in ED 1 is the transition to IAS 36 from a national GAAP that has a one-step impairment approach. It is not clear whether ED 1 implies that entities transitioning to IAS 36 would need to identify indicators of impairment only at the current balance date, from the date of transition to IASB Standards or from some earlier date. We raise the issue because many of the impairment indicators are in the nature of information that would be difficult to obtain on a retrospective basis.

The view of the AASB staff is that the IASB Standard arising from ED 1 should explicitly address the transition to IAS 36 from a national GAAP that has a one-step impairment approach. We consider that first-time adopters should be required to identify impairment indicators on the first day of the current reporting period in which IASB Standards are first adopted. We consider that it would be unreasonable to require first-time adopters to try and judge the existence of impairment indicators in prior reporting periods, even those presented in comparative information. The opening retained earnings for the current period in which IASB Standards are first adopted should be adjusted for any impairments arising from the change of approach. We appreciate that this would give rise to a reconciling item from the previous (comparative) period’s closing retained earnings, but consider this to be preferable to requiring entities to recognise the effect of the changed approach in the current period profit and loss.

Intangible assets

In my letter dated 24 October 2002, the issue of deemed cost was raised in respect of non-current assets generally. The same issue applies to previously revalued intangible assets.

Accordingly, the view of the AASB staff is that the IASB should permit the use of a previously deemed cost determined under national GAAP as deemed cost for the purposes of first-time adoption of IAS 38.

Yours sincerely

A handwritten signature in cursive script, appearing to read "Keith Alfredson".

Keith Alfredson
Chairman