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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
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Dear David

ED 1 "First-time Application of International Financial Reporting Standards"

Thank you for the opportunity to comment on ED 1.

The AASB issued ED 1 in August 2002 in Australia with a wrap around as ED 107 "Request for Comment on IASB ED 1 First-time Application of International Financial Reporting Standards" and encouraged Australian constituents to respond to the IASB, with copies of those responses to the AASB. The AASB has prepared its comments after having considered Australian constituents' comments on ED 107.

The AASB is generally supportive of the ED 1 proposals. However, we have a number of concerns that are explained in our attached comments.

As you are aware, the AASB's oversight body, the Financial Reporting Council, has committed to adopting IASB standards by 1 January 2005 and our comments are formulated from the perspective that most Australian reporting entities will be first-time adopters from that date. We have not commented on transitional issues that we believe will be considered as part of other projects that will be finalised before 2005, such as the transitional treatment of recognised internally-generated intangible assets and of revalued intangible assets under IAS 38 and the transitional treatment of financial instruments that may need to be reclassified on the introduction of the revised IAS 32.

Yours sincerely

Keith Alfredson
Chairman

AASB comments on IASB ED 1

SPECIFIC QUESTIONS ASKED BY THE IASB

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?

The AASB supports the principle underlying the proposal. However, the standards applied in Australia are unlikely to be identical to IASB standards for the following reasons:

- * the continued existence of some specifically Australian standards, in addition to the IASB standards, to cater for domestic imperatives (such as disclosure requirements for directors and executives not addressed in IAS 24);
- * Companies are required by the Corporations Act 2001 to apply AASB standards and, in order to make the requirements of IFRSs legally binding in Australia, they need to be made into Australian standards under our laws governing delegated legislation; and
- * AASB standards may contain additional material addressing domestic issues and issues affecting not-for-profit entities, including public sector entities.

The AASB regards these as unavoidable factors, but does not consider that they detract seriously from the commitment that Australian reporting entities will be complying with IASB standards. Accordingly, Australian reporting entities will have to state compliance with AASB standards. It may also be possible to have a second statement that the financial reports comply with IASB standards. The AASB and other affected parties in Australia will be considering a form of words to convey the message of compliance with IASB standards while also giving due regard to the factors noted above.

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?

The AASB supports the substance of the proposal. We consider the guidance on hedging, pension accounting and business combinations to be pragmatic and reasonable. However, we have some concern about the impact of the proposals in paragraphs 16 and 22.

Deemed cost

The AASB recently revised AASB 1041 "Revaluation of Non-Current Assets" to conform more closely with IAS 16 "Property, Plant and Equipment" as it relates to the revaluation of assets. We moved from a situation where entities could choose to revalue or not revalue on a year-by-year basis to the approach in IAS 16 under which an entity chooses either the cost

basis or the fair value basis and, once on the fair value basis, the entity is effectively locked-in to that basis. The AASB included transitional arrangements in AASB 1041 that allowed an entity that changed from a revaluation basis to a cost basis to treat the revalued amount at the date of the change as deemed cost. A large number of entities used the transitional arrangements in 2000 and 2001 and currently have a policy of measuring property, plant and equipment at cost and carry many of their assets at deemed cost, being the revalued amount in 2000 or 2001.

The effect of paragraph 16 appears to be to require Australian entities that used the AASB 1041 deemed cost transitional arrangement in 2000 or 2001 to revalue to fair value for their first reporting period beginning on or after 1 January 2005 in order to report a new deemed cost.

We suggest that the IASB consider permitting the use of a previously deemed cost determined under national GAAP as deemed cost for the purposes of first-time adoption of IAS 16. This could perhaps be achieved by extending the notion of “event-driven fair value measurement as deemed cost” in paragraph 19.

Application of IAS 19

Paragraph 22 proposes that an entity apply IAS 19 from the date of transition and would enable the use of a corridor for actuarial gains and losses from that date. Since the date of transition relates to the earliest period presented, the extent to which the corridor could be “built-up” would vary depending on how many previous comparative periods are presented. Given the direction of the current review of IAS 19, the AASB recommends that entities that have not previously used a corridor (under IAS 19 or a national GAAP) should be prohibited from using the corridor under IAS 19 on first-time application of IFRSs.

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?

The AASB supports the proposals with the exception that the proposed disclosure of two reconciliations from previous GAAP to IFRSs. The Board considers that the reconciliation for the earliest opening balance sheet presented [paragraph 31(a)(i)] is sufficient without also showing a reconciliation for the closing balance sheet for that period [paragraph 31(b)(ii)].

Question 4

Do you have any other comments on the Exposure Draft?

The AASB supports the principle proposed in paragraph 8 that entities comply with the IFRSs effective at the first reporting date for its first IFRS financial reports. However, it is not clear whether the third sentence of paragraph 13 amends or differs from this principle in the case where an entity does not use the exemptions in paragraphs 14 to 24. The AASB considers that the principle should hold to the extent possible regardless of whether entities choose to avail themselves of the exemptions.

FORMATTING AND EDITORIAL COMMENTS

AASB standards are delegated legislation in Australia and, historically, the AASB has developed its format and writing style to meet certain guidelines for legislative drafting in Australia. It is the AASB's intention to use the IASB's wording to the extent possible, but we have not yet had the opportunity to discuss the issues with the relevant Australian government departments. One issue that may cause concern is that AASB standards, in common with the law generally, are interpreted as a package comprising the standards themselves and related guidance. In our view the IFRS, Basis for Conclusions and Implementation Guidance should all be published together because the standard cannot be consistently interpreted without the other two parts.

There seems to be an internal inconsistency in paragraph 18 that leaves the reader unsure about whether investment property measured at cost can use the relief in paragraphs 16 and 17. Perhaps it was intended that the words in brackets should be "(including investment property measured at fair value)".

The need for Appendix A is not clear – we consider it to be redundant.

In the examples in Appendix B, we suggest that it would be helpful to have cross-references to the relevant paragraphs in the IFRS.