

# VNO NCW

---

Sir David Tweedie  
Chairman IASB  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Confederation of  
Netherlands Industry and  
Employers VNO-NCW  
Address  
12 Be Zuidenhoutseweg  
P.O. Box 93002  
NL-2509 AA The Hague  
Phone  
..31-70 349 03 49  
Fax  
..31-70 349 03 00

Reference Number  
02/15.507/Ho/Wo

The Hague  
October 31, 2002

Subject  
First-time Application of Financial  
Reporting Standards

Telephone Number  
..31 (0)70 349 0 4 22

Dear Sir,

We thank you for the opportunity to give our comments on ED1: First-time Application of Financial Reporting Standards. Before answering the specific questions posed in the exposure draft, we will raise some general comments.

## **General comments**

### *Effective date of new standards*

The transition to IAS/IFRS, in 2005, for thousands of European listed companies is a major and historical event. It involves many significant changes in financial reporting, especially for international companies. Because it is necessary to carefully prepare the multiple conversion steps, VNO-NCW believes that virtually all standards effective in 2005 should be known by the end of 2003 (the date of transition to IFRS for most companies involved).

The far-reaching and fundamental current IASB-projects (e.g. performance reporting, revenue recognition) should become effective only after the period of adoption in the European Union (i.e. in 2006 at the earliest). Companies will have to use their full resources to convert from local GAAP to IAS. Major changes in accounting standards becoming effective before 2006, will cause that companies have to manage two conversion projects simultaneously. Current projects that diminishes the differences with US-GAAP (e.g., the business combination project) are welcomed to become effective before 2006, as long as the standards are known before the date of transition to IFRS.

## *Comparative information*

Paragraph 29 sets out that "To comply with IAS 1, *Presentation of Financial Statements*, an entity's first IFRS financial statements shall include *at least one year* of comparative information under IFRS. If the first IFRS financial statements include more than one year of comparative information, that additional comparative information shall comply with IFRSs".

Some security exchange regulators (as the SEC) or security exchanges require a two-year comparative period in profit and loss and/or cash flow statements. The filing companies involved (under which many Dutch companies listed at American exchanges) should, as a result, already convert to IFRS at the beginning of 2003. We believe this requirement (of ED1, par 29) places a burden far too high on these companies, especially since many standards will only become definitively known during 2003 (under which the FTA-standard itself).

Therefore, we propose that if the first IFRS financial statements include more than one year of comparative information, only the immediate preceding comparative financial year should comply with IFRS. There should (only) be an *encouragement* (no requirement) to comply with IFRS for comparative financial year(s) before the immediate preceding financial year.

## *Business combinations*

We believe that the guidance on business combinations within ED1 is confusing and should be clarified on the following aspect. ED 1 paragraph 20 sets out the general principle of accounting for business combinations before the date of transition. We deduct from this paragraph that an ED1 applying company (using the exemptions of paragraph 14-24) should *not* (retrospectively) search for assets or liabilities that are not recognised under local GAAP while those should be recognised under IFRS (effective at reporting date). This is a logical deduction if, especially, the first sentence of paragraph 20 is taken into account (no retrospective application of IAS 22). However paragraph 21 stipulates that any adjustment resulting from the recognition of an asset or liability not recognised under previous GAAP, or the exclusion from the opening balance sheet of an item recognised under previous GAAP, should be recognised (the effect to be reported within retained earnings).

Considering the consequences of this latter paragraph, one can only conclude that IAS 22 should be applied retrospectively with the exemption of the carrying value of items that should (or could) be measured subsequently at cost basis according to IFRS. This carrying value shall be their deemed cost under IFRS.

VNO-NCW believes that a retrospective application indicates that items not previously recognised under local GAAP (as a result of a business combination) should not be recognised afterwards if (possibly many years) later the IFRS at reporting date requires for recognition after all. For companies the scrutinising of all past business combinations will result in a prohibitive load of work.

Although, basically, the same holds for previously recognised assets and liabilities (acquired through business combinations), that do not qualify for recognition under IFRS, we do not object that for these kinds of assets and liabilities the general rule of paragraph 11b applies. Of course this step is made a lot easier because those assets and liabilities are already recognised and should be examined anyhow with respect to the possible application of paragraph 20a.

Our preferred approach is reflected in example 4 of appendix B. Items not recognised are supposed to be assigned for a value of nil. However, example 1 takes a conflicting and different approach that again stresses the need for further clarification in this area.

## *Financial instruments*

Paragraph 24 only provides for prospective application of hedge accounting rules. We believe strongly that, as a result of the complexity of IAS 39 and related guidance, the other provisional rules of IAS 39 should be applied for the opening IFRS balance sheet as well. Especially the examination of previous derecognition transactions confronts converting companies with a huge amount of work in examining all kinds of transactions during a considerable period before application date. The efforts of companies should concentrate on the proper application of IAS 39 from the beginning of 2004 onwards. This will be challenging enough.

## **Comments on the questions posed**

### *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?*

We regard this as an appropriate description.

### *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?*

We do support the general principle in paragraph 7 that an entity should use the same accounting policies throughout all periods presented in its first IFRS financial statements and that those policies should comply with each IFRS effective at the reporting date. We

also agree that entities should be permitted to use the exemptions set out in paragraph 16 to 24.

We do not agree with the following statement from paragraph 14: "If an entity uses the exemptions in paragraphs 16-24, it shall use them all, to the extent that they are applicable." It is unclear why it is necessary to apply an "all or nothing" rule to standards which are individually independent and unrelated. For example, under the proposed standards, it is not permitted to use one exemption (goodwill), but not another (employee benefits). In our opinion entities should be encouraged to use as few exemptions as possible instead of being obliged to take the exemption package as a whole. An encouragement to use as few exemptions as possible enhances comparability with entities that already apply IFRSs.

We recommend to amend paragraph 14 in order to allow an entity for each exemption separately to either use the current ED1 approach or the transitional provisions contained in the IAS standard itself (SIC 8 approach).

### *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?*

We believe that the disclosure requirement in paragraph 37a should be eliminated. The benefit of reconciliation's for the comparable interim statements does not compensate the costs. We think the requirement in paragraph 37b is sufficient.

### *Question 4*

*Do you have any other comments on the exposure draft?*

- The treatment of goodwill for first-time adopters is described in Appendix B Business Combinations B1(e). We recognise that this prohibition against recognition of negative goodwill in an opening IFRS balance sheet reflects a proposal in phase I of the IASB's project on business combinations. In our opinion the IASB does not take its own due process seriously in prohibiting recognition of negative goodwill in an opening IFRS balance sheet before this is included in an approved IFRS.
- We believe more guidance should be given to paragraph 20b(ii). It is not clear whether the impairment loss of goodwill should be recognised as an expense in the income statement in line with IAS 36.59 or recognised directly in equity in line with ED 1, paragraph 12.
- Dutch companies listed on the US stock exchange do have US GAAP figures available already. In order to minimize the efforts and to prevent as many deviations between US GAAP and IAS, we are of the opinion that it must be possible to use existing US GAAP figures for specific items like goodwill and pensions. Due to the different

# VNO NCW

---

Page

5

implementation dates a long-term, sometimes even perpetual, difference between US GAAP equity and IAS equity would arise for these items otherwise, which is confusing to the outside world. The fresh start approach for pensions as required by the Board is therefore not feasible.

- We refer further to our general comments.

Yours sincerely,

CONFEDERATION OF NETHERLANDS INDUSTRY AND EMPLOYERS VNO-NCW



R.L. ter Hoeven

Projectmanager Harmonisation Accounting Standards