

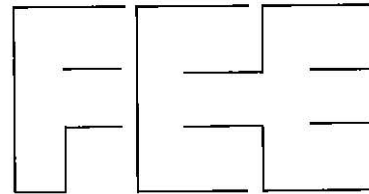
Date  
15 November 2002

Secrétariat  
Général

Fédération  
des Experts  
Comptables  
Européens

Rue de la Loi 83  
1040 Bruxelles  
Tél. 32 (0) 2 285 40 85  
Fax: 32 (0) 2 231 11 12  
E-mail: [secretariat@fee.be](mailto:secretariat@fee.be)

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street, 1<sup>st</sup> floor  
GB - LONDON EC4M 6XH



Email: [commentletters@iasb.org.uk](mailto:commentletters@iasb.org.uk)

Dear Sir David,

Re: Exposure Draft of First-time application of International Financial Reporting Standards

FEE is pleased to submit its comments on the Exposure Draft of First-time application of International Financial Reporting Standards. FEE as a founding organisation of EFRAG has also contributed to the EFRAG commenting process by submitting our views on their preliminary comments. Where we are in agreement with the EFRAG comments we refer to these comments, where we are in disagreement our own views are put forward. In addition we raise some additional comments.

From a theoretical point of view, to achieve the main goal of IFRS - worldwide comparability of financial statements of different companies, SIC 8 provides the most appropriate requirements to apply for the first time application of IFRS. Therefore, we regret that the ED proposals reduce the comparability between existing appliers of IAS and first time appliers. However, we accept that this approach is taken for practical reasons.

*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?*

Yes, FEE agrees that it is appropriate to regard the first time of application of IFRS as being the first time the financial statements include an explicit and unreserved statement of compliance with all IFRS and agrees with EFRAG.

Regarding paragraph 3(c), the standard should draw a distinction between an auditor's qualification in respect of non-compliance with IFRS and a qualification for other reasons. If auditors have issued an adverse audit opinion on the compliance with IFRS in the previous year, which is the year the entity for the first time explicitly and unreservedly states that it complies with IFRS, the entity should be considered a first-time adopter. Also, we regard as very relevant EFRAG's examples of inconsistent treatments based on paragraph 2 and 3.

In relation to paragraph 5, we support the exemption given to subsidiaries. However we suggest to delete condition (b). Condition (b) will be legally difficult to implement in some countries. In addition stakeholders, other than shareholders, may be entitled by law to receive financial statements such as the workers council.

If condition (b) were to be kept, we would at least advise to make the condition more pragmatic. It should not refer to unanimous agreement but to the situation where a shareholder explicitly disagrees. We agree with EFRAG's suggestion in this respect to change the wording in paragraph 5 (b).

*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?*

FEE supports the general principle in paragraph 7.

FEE does not agree that entities should use all exemptions in paragraphs 16 to 24 if they choose to use any of them. A company should be allowed to choose one exemption and not to have to use all exemptions. (An example is the application of fair-value for deemed cost of property, plant and equipment, but not applying the exemption on employee benefits.) Comparability is not improved by forcing companies to take unnecessary exemptions. We therefore disagree with the EFRAG response in this matter.

However, we support the EFRAG response that paragraph 13 is not clear as regards to entities choosing not to use the exemptions. It appears that paragraph 13 forces companies to take all exemptions, otherwise the application of IFRS becomes very difficult because they have to apply superseded versions of IFRS. The standard should focus on the main principle of paragraph 7, which is to use the same accounting policies throughout the periods. We believe that the third sentence of paragraph 13 (If an entity...) should be deleted since it is punishing an entity for not using the exemptions.

In our opinion, the combination of paragraph 7 and 13 is a major problem for a first-time adopter. The information would be more transparent for users and comparable for the periods presented if the fallback position when not using the exemptions were to be the use of the general rule in paragraph 7. However this would mean full retrospective application. We support in this respect the comment made by EFRAG on paragraph 7.

*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?*

FEE agrees that all of the disclosures are appropriate. We support in this respect the observations made by EFRAG.

*Question 4: Do you have any other comments on the Exposure Draft?*

We support the comments raised by EFRAG.

In addition, we would like to make the following additional comments:

**Para 13:** In a number of countries in Europe, the law allows the date of the first consolidation to be used instead of the date of acquisition when determining the fair value of the acquired assets and liabilities (as allowed by Art. 19 of the Seventh Directive). In our opinion the difference that this creates from IAS 22 is not sufficient to be treated as a departure from IAS so that companies moving to IAS from this position should not be considered as using the exemption set out in para 20.

**Para 23:** Cumulative translation differences: Paragraph 23 does not consider the problem of selling a subsidiary. If the entity cannot split the cumulative translation differences of each subsidiary, what happens when one of the subsidiaries is sold? Some in FEE proposed recording the cumulative translation differences at zero if you cannot identify individual cumulative translation differences, otherwise the balance will stay in equity forever.

Para 25: Estimates: Useful life of fixed assets: under national practice a shorter period may have been used whereas the actual useful life is longer for IFRS statements. Would this adjustment be considered as a change in estimate – as we presume – or as an error? It is not clear to us if changes in accumulated depreciation would be an error or not. We would like to change paragraph 32 so that it would not require the split between changes in accounting policies, changes in estimates and correction of errors. Users would be provided for with a description of the change, but not informed which types of adjustments are included in the reconciliation. This would avoid any unfortunate tax and legal implications.

Appendix A: Presentation: We suggest including the definition of defined terms in Appendix A and not in the Glossary at the end of the ED, i.e. combination of Appendix A with the Glossary.

We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

Göran Tidström  
President