



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

**Quoted Companies
Alliance**
56-60 Gresham Street
London EC2V 7BB
Telephone 020 7600 3745
Fax 020 7600 8288
mail@qcanet.co.uk
www.qcanet.co.uk

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Dear Sir David,

Exposure Draft 1: First time application of International Financial Reporting Standards

Please find detailed below the Quoted Companies Alliance response to the above Exposure Draft. We apologise for the lateness in submitting this response.

1 Introduction

1.1 *Quoted Companies Alliance*

The Quoted Companies Alliance (QCA) is a not-for-profit association dedicated to promoting the cause of Smaller Quoted Companies (SQC) – defined as those quoted companies outside the FTSE 350 representing 85% of UK quoted companies by number.

QCA believes that the UK's future prosperity depends on business enterprise and is committed to improving the ability of its members to:

- demonstrate value to both capital markets and the wider economy
- to represent members interests and requirements and ;
- To ensure that the regulatory environment in which they operate effectively balances the interests of members, investors and other legitimate interests.

Together SQCs employ over two million people. The recruitment, retention and motivation of high quality management and employees are pre-requisites for success.

This Paper

- 1.2 In July 2002, the IASB and the ASB issued papers - "Exposure Draft 1: First time application of International Financial Reporting Standards" and "IASB Proposals on First-time Application of IFRSs" respectively. Interested parties were asked to furnish comments by 31 October 2002.
- 1.3 This paper, prepared by QCA's Accounting Standards Committee, constitutes the reply of the Quoted Companies Alliance to the Exposure Draft, "ED1", for submission to the ASB.

- 1.4 The Exposure Draft lists a number of questions in respect of which specific comment is sought. QCA's response to those questions is set out as part 3 of this document whilst part 2 addresses wider issues.

2 QCA's general response to ED 1

- 2.1 In view of the requirement for listed companies in the European Union to adopt International Accounting Standards by 2005, QCA welcomes IASB's clarification of SIC-8. In particular, requirements for enhanced disclosure on the effects of transition to IFRSs and the creation of targeted exemptions will be of benefit to both users and preparers of financial statements.
- 2.2 QCA commends IASB on the structure and format of the Exposure Draft and in particular, the publication of the part entitled "Basis for conclusions".
- 2.3 QCA recognises that the Exposure Draft had to address and balance the interests of both users and preparers of financial statements. In simplistic terms, these being the comparability of financial statements issued under IFRSs and the practicality and cost of preparation respectively. Broadly, QCA welcomes the pragmatic approach adopted by the IASB in resolving potential conflicts of interest.
- 2.4 It is QCA's experience that its constituents tend to consider any form of legislative or regulatory change on the basis of a cost benefit analysis.
- 2.4.1 In drafting the Exposure Draft, the IASB has referred to the four qualitative characteristics that make financial information useful to users as contained in the "Framework for the Preparation and Presentation of Financial Statements". In the context of "reliable information" the "Framework" suggests that information should be complete within the bounds of materiality and cost. The IASB considers that the ED1 achieves a balance between cost and benefit for entities that plan in advance for the introduction of IFRSs.
- 2.4.2 The "Basis for Conclusions on Exposure Draft" fails to provide the basis for the conclusion referred to above. QCA is of the opinion that the adoption of IFRSs will require significant additional resource on the part of the preparers of financial statements and that those costs arguably outweigh the potential benefits to both QCA's members and to the users of the financial statements prepared by members'. (In particular, concern has been expressed regarding the amount of work involved in connection with the disclosure of comparative information). QCA anticipates that many entities may wish to voluntarily disclose costs associated with first year adoption of IFRSs in order that shareholders may draw their own conclusions.
- 2.5 In order to ease the burden of compliance on smaller companies, QCA would welcome both exemptions for those companies that do not operate on a cross border basis together with an application date for smaller entities of 1 January 2004.

3. QCA's response to ED 1

- 3.1 *Q1 The proposed IFRS would apply when an entity first adopts International Financial Reporting Standards as its new basis of accounting, by an explicit and unreserved statement of compliance with all IFRSs. Is this an appropriate description of the circumstances when this proposed IFRS should apply? If not, what circumstances would you suggest, and why?*

QCA agrees that the proposed IFRS should apply when an entity adopts IFRSs as its new basis of accounting as evidenced by an explicit and unreserved statement of compliance with all IFRSs. Whilst mindful of the arguments set out in paragraphs BC5 to BC7, QCA concurs with the view that any other approach would cause ambiguity and undermine efforts to promote full compliance.

- 3.2 *Q2 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?*

QCA supports the proposal that entities should adopt consistent accounting policies throughout all periods presented in their first financial statements drawn up under IFRSs.

The exceptions proposed in paragraphs 13-24 are both appropriate and to be welcomed. Whilst some may argue that the principle of comparability between financial statements prepared under IFRS may be compromised by providing scope for selective use of exemptions, we commend the IASB in adopting a pragmatic approach that takes account of the practical problems that will be encountered on first time application.

We would support limited disclosure as to which exemptions have been relied upon in preparing financial statements despite the fact that such disclosure may be of limited interest to all but expert users of accounts. It is not clear, however, whether or not the use of exemptions precludes a statement of full compliance being given or whether the fact that the ED will become a standard, ensures that exemptions are treated in common with transitional arrangements under other IFRSs.

- 3.3 *Q3 Paragraphs 28-37 of the proposed IFRS deal with presentation and disclosure requirements. 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?*

QCA believes the disclosures to be appropriate.

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

None of substance.

If you require any further information or explanation, please do not hesitate to contact me on the above address or via email at mail@qcanet.co.uk.

Yours sincerely,

A handwritten signature in black ink that reads "John Pierce". The signature is written in a cursive style with a horizontal line underneath the name.

John Pierce
Chief Executive