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**Comments on the Exposure Draft "First-Time Application of International Financial Reporting Standards"**

The Russian Financial Reporting Council is pleased to submit to you its comments on the Exposure Draft "First-Time Application of International Financial Reporting Standards".

Should you have any questions, please contact me by e-mail [lgorbatova@ccmd.ru](mailto:lgorbatova@ccmd.ru), or fax +7 (095) 797 9566.

The electronic version of the comments will be sent to you shortly.

Sincerely yours,

Larissa Gorbatova,  
The FRC Chairperson

## **The Financial Reporting Council comments on the Exposure Draft “First-Time Application of International Financial Reporting Standards”**

The FRC has decided to submit to the IASB comments on one particular issues dealing with grandfathering accounting for past business combinations for first-time adopters, since practical implementation of the proposed principle appears to have substantial consequences for the accounting information.

### *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?*

### **FRC comments:**

There are two sides of the issue.

On the one hand, the bigger difference between local GAAP rules for business combinations accounting, if any, and IFRS, the more necessary it is to apply IFRS retrospectively in order to get useful comparable information.

On the other hand, the more the discrepancy the bigger the cost of retrospective application. ***Russian GAAP does not provide any rules at all*** for business combinations accounting. This means comparative information will be incorrect assuming grandfathering of most aspects of accounting for past business combinations. And the consequences of this incorrectness may last for years due to the specific features of business combinations. All said above means that Russian entities' IFRS financial statements will depart from the IFRS requirements during many years after the IFRS first-time application.

Retrospective application of IFRS business combinations accounting is reasonable for Russian enterprises also because most of them became commercial and started this sort of operations (i.e. mergers and acquisitions) no more than ten years ago. Accordingly, the cost of such application is outweighed by the benefits of useful information.

For companies in other countries who have existed longer than 20 years, retrospective application of IFRS business combinations accounting may cause serious practical problems. At the same time local GAAP rules for business combinations accounting may not differ that significantly from IFRS, so the cost of retrospective IFRS application will not be balanced by the benefits of the useful information.

## Conclusion

The FRC's opinion is to support the proposal to grandfather previous accounting data with respect to business combinations *only if* there will be criteria of usefulness of these data, such as:

- Existence of special accounting rules for business combinations in national GAAP,
- These rules are based on the economic substance of business combinations.