



Foreningen af Statsautoriserede Revisorer

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Dear Sirs

Comments on ED 1 First-time application of International Financial Reporting Standards

We welcome the opportunity to provide comments on ED 1 First-time application of International Financial Reporting Standards on behalf of the Danish Institute of State Authorised Public Accountants (FSR).

FSR's Accounting Standards Committee has reviewed the ED and we summarize our comments below. Our comments have been discussed with the Danish Accounting Advisory Panel which represents users and preparers of financial statements.

General comments

We find it very difficult to figure out what the main principles of the standard actually are. Paragraph 7 seems clear. However, section 8 and paragraph 13 create confusion. On the one hand it is said that SIC-8 is superseded. On the other hand, paragraph 13 seems to reintroduce SIC-8 either to some extent or in full. The paragraph could be read as saying that SIC-8 must be used *on the items dealt with in paragraph 14-24*, if the exemptions are not used, or it could be read as saying that SIC-8 must be used *in full* if the exemptions are not used. The Basis for Conclusions does not seem to answer the question. It is our impression that most other commentators are as confused as we are.

We find it difficult to understand exactly how the distinction between what should be included in the standard itself, the appendix to the standard and the implementation guidance is made. The example given in section 8 could just as well have been part of the appendix. On the other hand, practically all requirements regarding hedge accounting (section 24) must be found in the appendix to the standard. Further, some of the principles on business combinations seem to appear from the text in paragraphs 20 and 21, while others seem to appear from appendix B. It even seems that there is a contradiction between the paragraph-text and the appendix. Paragraph 21 thus says that assets, which were not recognised, but should have been recognised under IFRS must be included in the opening balance. On the other hand, example 4 of appendix B says that if an intangible asset was recognised at an amount of 0, the amount assigned to the asset is 0, and therefore 0 is the value to be used in the opening bal-



ance. We find no logic way to distinguish between situations where the assets is recognised at a value of 0 and where it is not recognised.

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 agree that the only workable way would be the rule set up in the draft.

In a number of financial statements, reference is made to IFRS as well as local GAAP, i.e. this reference should only be made if both sets of rules are complied with. The Board should consider whether there should be a paragraph addressing this issue by saying that such a dual reference would not preclude the financial statements from being IFRS financial statements.

We see no reason for having special rules for subsidiaries. Further, we see no reason why application of accounting rules should be driven by decision of certain users of financial statements. Protecting of minority interests should be dealt with in company law instead.

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?

In general we find the exemptions appropriate. However, to us it is questionable whether the assumption set up in section 16 that some companies do not have a register of assets can be justified.

We are concerned that some of the exemptions may apply unconditionally. There are no conditions for applying the business combination exemptions, but the property, plant and equipment exemptions may only be used if retrospective application would cause undue cost or effort. Further, we do not find it logical that it is an all-or-nothing choice. We find it more appropriate that the exemptions could be used one by one and only under certain circumstances. The board has chosen the phrase undue cost or effort for some of them. We find that this could be a general requirement for the use of each exemption. However, in our view it would be necessary to describe in more detail what is meant by that phrase.

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?

Basically, we find the disclosure requirements appropriate. However, we find that the effect of assets and liabilities should be presented too. This could probably be done in a table format including the requirements already set up (originally, +/- adjustments, adjusted) without extending the amount of information to be given unreasonably much.

Further, we find it necessary to include a requirement to disclose the use of all the exemptions in section 14-24 and not just the "Fair value as deemed cost" exemption. This disclosure requirement should apply as long as it has a material impact on the reported financial position and performance of the enterprise.

Other comments

The general principles of the standard

In our view there should no longer be any reference at all to the principles set up in SIC-8 and therefore *we suggest the following model:*

- The main rule is full retrospective application (as set out in paragraph 7)
- Exemptions may be used on specified areas. If they are not used, the main rule applies.

We are aware that, as discussed in the The Basis for Conclusions, that some enterprises may in fact comply with specific standards including implementation in accordance with the transitional rules without stating that the accounts are IFRS accounts. However, having three sets of rules full retrospective application, SIC-8-rules/rules set up in specific standards, and rules for targeted exemptions, would concern us. Further, we find that the exemptions as they are set up in the draft to a wide extent make in possible just to use the figures as they are. I.e. enterprises which have effectively implemented IAS 22 by use of the transitional rules in the 1993 version would be able to use these figures without any changes by using the exemption for business combinations as set up in paragraph 20. We see a possible problem for companies, which have used the transitional provisions of IAS 19 allowing enterprises to recognise previously not recognised defined benefit plans over a period of five years. However, we are sure that this possible problem could be solved.

The business combination exemption

We have some concern with respect of the exemption for goodwill previously not recognised, cf. paragraph 20. We find that there at least should be a recycling requirement in case of disposal, if use of the exemption implies that goodwill acquired from 1995 (the effective date of the previous version of IAS 22 requiring capitalisation of goodwill on acquisitions from 1995 an onwards) until the date of transition is not recognised.

Internally generated intangible assets

In our view, restatement of previously expensed costs of internally generated intangible assets should be addressed directly in the standard and not only in the implementation guidance. IG38 says that - under IAS 38 restatement is prohibited, as this could imply use of hindsight in assessing whether the criteria in paragraph 45 were met at the points of time in question. This seems to introduce a new principle contradictive to the general principle in the standard. Thus enterprises might on an ongoing basis demonstrate that the criteria in paragraph 45 are met, however, the costs are recognised as expenses in accordance with the GAAP under which the enterprise prepares its accounts. As a consequence of the "incidental" treatment under the previous GAAP, the asset cannot be recognised in the IFRS opening balance. We find it necessary that the standard clarifies this issue.



Standards coming into effect in the enterprises' first IFRS financial statements

Section 7 requires enterprises to apply all standards effective at the balance sheet date of the first IFRS financial statements retrospectively. As indicated above, we agree with this main principle. However, we are concerned by the fact that this also applies to standards coming into effect for the first time for this year regardless of the transitional provisions in the new standard. We are especially concerned in situations where the transitional provision has been included in the standard to avoid undue cost or effort for the enterprise or to avoid the risk of hindsight. The board should therefore consider whether transitional rules to be used for first-time application only on a standard-by-standard-basis would be an alternative.

Bolded vs. grey paragraphs

We have the understanding that the bolded paragraphs should be paragraphs laying down the main principles of a standard. In our view this should imply that the first sentence of paragraph 2 should be a bold-text paragraph, as it explains *when to use* the standard. Section 10 explains *how* to prepare the IFRS opening balance, and paragraph 13 explains the exemption principle, and these should therefore also be bolded paragraphs.

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If you have questions to the above, please do not hesitate to contact us.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Eskild Nørregaard Jakobsen'.
Eskild Nørregaard Jakobsen
Chairman of FSR's Accounting
Standards Committee

A handwritten signature in dark ink, appearing to read 'Ole Steen Jørgensen'.
Ole Steen Jørgensen
Head of Department