

# Memo

To: International Accounting Standards Board

From: Canadian Accounting Standards Board Staff

Date: October 30, 2002

Re: **ED1, First-time Application of International Financial Reporting Standards, July 2002**

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The following comprises the response of Canadian Accounting Standards Board staff (AcSB staff) to the IASB's exposure draft ED 1, First-time Application of International Financial Reporting Standards, dated July 2002.

In general we agree with the proposals. However, we believe that an additional exception is necessary for derecognition transactions undertaken prior to the date of the opening IFRS balance sheet. We also suggest that there are a number of items in the Implementation Guidance and the Basis for Conclusions that should more usefully be contained in the body of the IFRS.

We also note the IASB's intent to consider case-by-case whenever it issues a new IFRS whether a first-time adopter should apply that IFRS retrospectively or prospectively and to adjust the IFRS on First-time Application of IFRS if it concludes that prospective application by a first-time adopter is justified (BC88). We believe that it will be important to ensure that this process continues to take place for IFRS that will be effective after 2005. Even though many enterprises will need to adopt IFRS by 2005, there will be many more that may adopt IFRS after that date.

Issues of first-time application will be just as important to those enterprises, but with a different set of IFRS from those adopting for 2005. We suggest that consideration of first-time application issues be formally required for all projects leading to future IFRS.

Our detailed comments on the questions in the Invitations to Comment and other matters are set out in the following pages. We would be pleased to elaborate on these points in more detail if you so require. If so, please contact Ron Salole, Director Accounting Standards at +1 416 204-3277 (e-mail [ron.salole@cica.ca](mailto:ron.salole@cica.ca)), or Ian Hague, Principal Accounting Standards at +1 416 204-3270 (e-mail [ian.hague@cica.ca](mailto:ian.hague@cica.ca)).

## **Responses to Questions**

### **Question 1**

Yes. We agree that the proposed IFRS should 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 IFRS. We concur with the analysis in the Basis for Conclusions supporting this view.

### **Question 2**

We agree that an entity should 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. We also agree with the proposed limited exemptions from this requirement. However, we believe that the Board should create a further exemption as follows.

Consistent with our comments in response to the IASB exposure draft on proposed amendments to IAS 32 and IAS 39, we believe that financial instrument derecognition transactions prior to the date of the opening IFRS balance sheet should be grandfathered and disclosure should be required of a general description of any assets and liabilities that are not recognized. Although ideally all assets and liabilities should be recognized in the opening IFRS balance sheet we believe that it is likely to be unduly onerous to identify and determine these amounts.

### **Question 3**

Yes. We agree that the presentation and disclosure requirements in paragraphs 28-37 of the proposed IFRS are appropriate. We have not identified any further disclosures or any need to eliminate or amend any of the proposed disclosure requirements.

### **Question 4**

Our other comments on the exposure draft are set out below.

Although the proposals have been developed on the assumption that an entity will plan its transition to IFRS well in advance (see, for example, paragraph BC13), we believe that in reality there will be entities that decide to convert to IFRS after the date at which an opening IFRS balance sheet must be prepared, particularly in jurisdictions when more than one year of comparative figures is provided. While we do not believe that any further exemptions should be provided to such an entity in preparing the opening IFRS balance sheet, we suggest that guidance should be provided explaining that each of the comparative balance sheets (and income statements, statements of changes in equity and cash flows) should be prepared as if IFRS had been applied throughout the transition period. For example, an impairment that has occurred between the opening IFRS balance sheet date and the reporting date should be recognized in the period in which it would have occurred in accordance with IFRS (which might differ from the period in which it might have occurred in accordance with whatever other standards the entity was following prior to the reporting date). Similarly, revenue recognition during the transition period should be allocated according to IFRS. Revenues, expenses, gains and losses, should also be appropriately presented in the income statement or statement of changes in equity in accordance with IFRS during the transition period(s). We believe that it would be useful to include paragraph IG14, relating to revenue recognition in the body of the IFRS and to clarify that this applies not only to the opening IFRS balance sheet, but also to those presented for comparative purposes.

*Property, Plant and Equipment (paragraphs 16-18):* We suggest that the need for an entity to be consistent in concluding whether cost-based measurements involve undue cost or effort, explained in paragraph BC 37, be included in the body of the IFRS for greater clarity.

*Employee Benefits (paragraph 22):* The consequence of paragraph 22, regarding recognition of all actuarial gains or losses is not immediately obvious without referring to the Basis for Conclusions. We suggest that some material from paragraph BC 46 be included in the body of the IFRS for greater clarity. We also suggest that the last sentence of paragraph BC50, explaining that it is not necessary to perform an actuarial valuation at each of the reporting date, the end of the comparative year and the date of transition to IFRS, but that material transactions and events need to be reflected, be included in the body of the IFRS.

*Financial Instruments (paragraph 24):* We believe that the statement that sales or transfers of held-to-maturity investments before the date of transition to IFRS do not trigger the tainting rules in IAS 39 (presently contained in paragraph IG46) should be contained in the body of the IFRS.

*Structure of the documents:* We do not find the overall structure of the documents very user-friendly, in particular with regard to examples and supporting guidance. Examples are contained within the body of the IFRS, within Appendices B and C and within the Implementation Guidance. Certain supporting material is contained in Appendices B and C, but other supporting material is contained in the Implementation Guidance. It is often not clear why material has been presented in a particular location. We suggest that all examples should be contained outside the body of the IFRS. This would make it easier to focus on the principles and requirements of the IFRS. We also suggest that where material in Appendices B and C is essential to implementing the IFRS it be contained in the body of the IFRS, but otherwise should be contained in the Implementation Guidance. This would alleviate the difficulty that one has to consult three different parts of the documents (as well as the Basis for Conclusions) before being able to fully comprehend the application of the IFRS to, say, financial instruments.

## Editorial

The introduction to paragraph 11 might be clearer if it specified that, “Paragraph 7 requires an entity’s opening IFRS balance sheet to comply with all the recognition and measurement requirements of IFRS effective at the reporting date for its first IFRS financial statements.” (addition underlined).

The first sentence of paragraph 33 is an explanation of why the second sentence applies. It might be more appropriately located in the Basis for Conclusions document.

Paragraph B1 repeats paragraphs 20 and 21 of the IFRS, but with relatively brief additions to sub-paragraph (a), the last sentence of sub-paragraph (b) and sub-paragraph (e). It seems unnecessary to repeat material that is in the IFRS and makes it difficult to identify new material. We suggest that this be modified.

**Summary of responses to questions**

The following provides a summary of our responses to the questions in the Invitations to Comment. Please see our detailed response for further details. Also, please note that our detailed response raises other matters related to a number of the proposals that do not directly relate to the questions asked in the Invitations to Comment.

Question #	Agree	Disagree	Other
Q1	√		
Q2	√		Agree with those exceptions proposed, but suggest an additional exception for financial instruments previously derecognised.
Q3	√		
Q4			See comments.