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IN IRELAND

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Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

“IASB Proposals for First-Time Application of International Financial Reporting Standards – ED 1”

Dear Sir David

The Accounting Committee of the Institute of Chartered Accountants in Ireland (AC) fully supports the work being undertaken by the IASB and welcomes the opportunity to offer its comments. The following are the comments of the AC on ED 1 *‘First-Time Application of International Financial Reporting Standards’*. We regret that it was not possible to submit these comments by the deadline of 31 October 2002 but hope that it will still be possible for the Board to consider our response in their deliberations.

1. The proposed IFRS would apply when an entity first adopts IFRSs 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 changes would you suggest, and why?

AC agrees with this proposal.

AC considers that it would be helpful to the users of the financial statements if an entity were to state the basis on which its prior financial statements were prepared, in view of the degree of variation there is between the various other GAAPs currently used by entities that will transition to IFRS.

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 further ones?

AC agrees with the basic principle that an entity should prepare its opening IFRS balance sheet using accounting policies that comply with IFRS effective at the reporting date for its first IFRS financial statements. Nonetheless, AC accepts that there is a need for limited exemptions where full compliance with the basic principle may not be practicable.

AC members consider that the interaction between the requirements of para 8 and 9, which appear to require retrospective application of applicable IFRSs, and the reference in para 13 to the 'need to consider superseded versions of IFRSs if later versions required prospective application' in relation to an entity that 'does not use the exemptions', is overly complex. AC recommends that IASB should attempt to clarify precisely (1) what the basic requirement is (without reference to exemptions) and (2) what the exemptions are (without reference to the basic requirement). For example, the use of the word 'applies' in para 8 and the word 'specify' in para 9 allow differing interpretations. Does 'applies' in para 8 refer to an entity that has chosen to take the exemptions? Does 'specify' in para 9 mean 'allow' or 'require' or perhaps both?

AC appreciates that the 'all or nothing' approach to the exemptions should reduce the incidence of 'cherry-picking' and that it has been framed in the context of IASB's conclusion in BC16 that it should 'concentrate on achieving comparability over time within a first-time adopter's first IFRS financial statements and between different entities adopting IFRSs for the first time at a given date' with 'achieving comparability between first-time adopters and entities that already apply IFRSs' being a 'secondary objective'. However, AC considers that the reasons for prohibiting an entity from availing of certain exemptions only, where the entity wishes to prepare its financial statements in full compliance with existing IFRSs, with only one or two exceptions, have not been adequately justified by IASB.

In addition, AC considers that it would be inappropriate to allow prior GAAP to persist in the IFRS financial statements to an extent that would penalise entities whose prior GAAP was closer to IFRS, because of the competitive advantage it might give entities whose prior GAAP was not as close to IFRS. AC considers that this issue is particularly relevant in the areas of purchased goodwill and cumulative translation differences. For example, AC questions whether it would be appropriate for entities to measure the profit or loss on disposal of acquired subsidiaries on widely different bases that are influenced by their prior GAAP.

With regard to cumulative translation differences, AC considered that it was unclear whether the use of word 'determined' in para 23, rather than 'presented', was deliberate. AC is unclear as to whether previous presentation of a CTD in the financial statements is required in order to deem that amount as the CTD. AC

considered that the reference to 'if any' in the last sentence may suggest that it is required. AC recommends that IASB should clarify this situation in the final IFRS.

3 Paragraphs 28-37 of the proposed IFRS deal with the presentation and disclosure requirements. Are all of these disclosures appropriate? Should the Board require further disclosures or eliminate or amend any of the proposed disclosure requirements?

AC agrees with the proposals, subject to the comment at Q1 above

4 Any other issues.

- Paragraph 26 implies that, on the transition to IFRS, if there is additional information available that would require adjustments to be made to the financial statements to comply with IAS 10 Events after the balance sheet date, these should be made based on the conditions effective at the financial statements date. The disclosure of this is alluded to in paragraph 31/32. AC considers that the fact that information has been used that was obtained after the original date of these financial statements should be indicated clearly.
- Under certain listing rules and other GAAPs, companies may have to provide up to 5-year summary information, be it in actual format or pro-forma disclosures. AC considers that it would be helpful if IASB were to indicate whether it is necessary, or desirable, to show all these prior years using IFRS, and if so, whether the requirements of ED1 are to be applied.

If you require any clarification or further details on any of the points raised in the response please contact the Secretary to the Committee, Alix Brebbia on +353 1 6377316 or at alix.brebbia@icai.ie.

Yours sincerely



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