ED168 sub 1

Grant Thornton

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Dear Bruce

ED 168 Additional Exemptions for First-time Adopters - Proposed Amendments to IFRS 1

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on Exposure Draft ED 168 which is a re-badged copy of the International Accounting Standards Board's Exposure Draft *Additional Exemptions for First-time Adopters - Proposed Amendments to IFRS 1* (the ED). Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies and businesses. This submission has benefited with input from our clients, Grant Thornton International which will be finalising a global submission to the IASB, and discussions with key constituents.

We understand that the proposed additional exemptions address major impediments to the adoption of IFRS in certain jurisdictions, and offer a pragmatic solution to them that will reduce the costs for first-time adopters. The additional exemptions from the general principles of IFRS can be criticised on conceptual grounds. We believe however that they are justifiable based on the objectives of IFRS 1, which necessarily includes compromise solutions intended to strike an appropriate balance between the costs of first-time adoption and the benefits to users. We therefore support the proposals. Our responses to the specific questions raised in the ED are detailed in the attached Appendix. If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED

Keith Reilly
National Head of Professional Standards

Appendix 1:
Responses to Exposure Draft Questions

ED 168 Additional Exemptions for First-time Adopters - Proposed Amendments to IFRS 1

Question 1 - Deemed cost for oil and gas assets

Do you agree with the proposed deemed cost option for entities using full cost accounting under previous GAAP? Why or why not? If not, what alternative do you propose and why?

We agree with the proposed deemed cost option for entities using full cost accounting under previous GAAP.

Without the proposed deemed cost option, entities operating in this industry would face substantial difficulties in obtaining the information necessary to separate out the costs that have been recognised in one cost centre. At the IFRS unit of account level, problems would also be encountered in calculating amortisation on a unit of production basis as the reserves base is subject to annual re-estimation and may have changed over time.

It is likely that the process of collecting the information needed to deal with these problems will be very expensive and in some situations may not be possible at all. We see the exemption as a pragmatic solution to these problems. We further consider it to be in accordance with IFRS 1's overall objective of generating information that provides a suitable starting point for accounting under IFRS at a cost that does not outweigh the benefits.

Given that use of the proposed exemption could result in amounts being included in the cost of oil and gas assets that would not otherwise be capitalised in accordance with IFRS, we agree with the Board's proposal to require these assets to be tested for impairment at the date of transition to IFRSs.

Question 2 - Oil and gas assets—disclosure

Do you agree with the proposed disclosure requirements relating to the deemed cost option for oil and gas assets? Why or why not?

We agree with the proposed disclosure requirements. We believe that it is important for entities to explain use of the proposed deemed cost option given that the exemption allows the continued recognition of amounts in the cost of oil and gas assets that would not be capitalised in accordance with IFRSs. Furthermore, some oil and gas entities (e.g. those that have accounted for oil and gas assets under the successful efforts method) will not need to apply the exemption and will therefore be presenting information on a different basis.

Question 3 - Deemed cost for operations subject to rate regulation

Do you agree with the proposed deemed cost option for entities with operations subject to rate regulation? Why or why not? If not, what alternative do you propose and why?

We agree with the proposed deemed cost option for entities with operations subject to rate regulation.

Entities subject to rate regulation may have included costs in the carrying amount of property, plant and equipment that would not meet the criteria for capitalisation under IFRS. These costs may not be tracked once they have been capitalised. Obtaining the information necessary to restate property, plant and equipment to comply with the full requirements of IFRS on first-time adoption may then be expensive to obtain where sufficient historical records have not been maintained. In some cases where assets have been in existence for a long time, the information may not be available at all.

We therefore agree with the proposed deemed cost option which we consider to be in accordance with IFRS 1's overall objective of generating information that provides a suitable starting point for accounting under IFRS at a cost that does not outweigh the benefits.

We agree that the relief should only be made available where it is impracticable (as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) to retrospectively apply IAS 16 *Property, Plant and Equipment* or to use the fair value of the option as its deemed cost.

We also agree with the proposed requirement to test each item for impairment at the date of transition for the same reasons we have given in our answer to question 1 above.

Question 4—Leases

Do you agree with the proposal not to require the reassessment of whether an arrangement contains a lease in the circumstances described in this exposure draft? Why or why not?

We agree with the proposal not to require the reassessment of whether an arrangement contains a lease where an entity has previously used a national standard with requirements which are identical to those of IFRIC 4 *Determining whether an Arrangement contains a Lease*. To require otherwise is likely to result in higher costs to the entity on conversion without there being additional benefits.

Question 5—Assessments under previous GAAP before the date of transition to IFRSs

Do you agree that the situation referred to in Question 4 is the only one in which additional relief of this type is needed? If not, in what other situations is relief necessary and why?

We are not aware of any other situations where relief of this type is necessary.

Specific AASB Questions

a **Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**

i **not-for-profit entities;**

ii **public sector entities;**

Apart from our earlier comments, we are not aware of any regulatory issues that may effect the implementation of the proposals

b **whether overall, the proposals would result in financial statements that would be useful to users;**

Apart from our earlier comments, we believe that the proposals will result in financial statements that would be useful to users

c **whether the proposals are in the best interests of the Australian economy.**

Apart from our earlier comments, we believe that the proposals are in the best interests of the Australian economy.