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Organización Internacional de Comisiones de Valores  
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January 8, 2009

*Exposure Draft: Additional Exemptions for First-time Adopters (proposed amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards)*

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

**RE: Exposure Draft: Additional Exemptions for First-time Adopters (proposed amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards)**

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) *Exposure Draft: Additional Exemptions for First-time Adopters (proposed amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards)*.

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

### **Responses to the Board's Questions**

#### **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 alternatives do you propose and why?***

SC1 members note that the discussion in paragraphs BC5 and BC6 suggests that capitalized exploration and evaluation costs that have been included in the full cost pool and are being amortized under the entity's application of full cost rules would not need to be separately identified as exploration and evaluation assets. That is, only capitalized exploration and evaluation costs which are not being

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amortized under an entity's previous application of the full cost method would be recorded at the carrying amount as determined under the entity's previous GAAP. We recommend that this be clarified in the body of the standard under paragraph 19.A.

We note that the proposal would allow companies to measure oil and gas assets in the development or production phase by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values. The view of some SC1 members is that, given the different uncertainty of recovery of the various reserve categories, it may be helpful to provide guidance about how to weight various reserve classifications in the allocation calculation to determine the assets in the development or production phases. For example, given that probable reserves have a 50% confidence level of recovery, how should they be weighted in contrast to proved reserve data for purposes of the allocation formula?

Our understanding is that some companies previously using the full cost method have already transitioned to IFRS without being afforded an exemption. We also understand that certain jurisdictions adopting IFRS in the near future have significant challenges in determining the carrying amounts for oil and gas assets at the date of transition, compared to other jurisdictions that have already adopted IFRS. These challenges are discussed in paragraph BC3 of the proposed amendment; however we suggest expanding the basis for conclusions to address why offering the exemption to some companies outweighs the potential for reduced future comparability among entities arising from the differing cost basis for exploration, evaluation, development and production assets, resulting in reduced comparability among entities. Further, paragraph BC4 of the proposed amendment cites the Board's principle of avoiding excessive costs, and we suggest that paragraph BC3 include a similar reference to a Board principle for the issue of determining the carrying amounts for oil and gas assets (for example, a reference to paragraph BC26 of IFRS 1).

We suggest that consideration be given to aligning the transition adjustment with the transition provided decommission costs as discussed in paragraph BC 7 or at least provide an additional discussion providing the Board's basis for requiring the impairment charge that will likely result from transition to be recorded in current income.

#### **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. Considering the on-going basis differences that will arise between companies that historically followed the full cost method of accounting and those that followed other methods of accounting, we suggest that the Board consider including an on-going disclosure requirement that indicates that certain portions of the asset base have been capitalized (and tested for impairment) pursuant to previous accounting methods that currently would not be permitted for capitalization. We also suggest ongoing disclosure about why there may be a different basis of assets as well as any difference in the nature of the capitalized expenses, until such time that the basis difference is no longer material.

#### **Question 3 – Deemed cost for operations subject to rate regulation – disclosure**

***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 have no objection to the proposed deemed cost option. While we have no basis on which to challenge the notion in paragraph BC11 about a lack of historical information by companies with

operations subject to rate regulation, compared to oil and gas companies, it seems more likely that these companies have such information available due to other regulatory filing requirements.

**Question 4 -Leases**

**Question 5 - Assessments under previous GAAP before the date of transition to IFRS's.**

*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?*

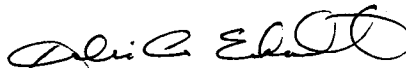
*Do you agree that the situation referred to in Question 4 is the only one in which additional relief of this type is needed? If not, in what other situations is relief necessary and why?*

We have no objection to not requiring a reassessment of whether an arrangement contains a lease in the circumstances described in the exposure draft. We have not identified any additional situations potentially requiring a similar exemption not already dealt with in IFRS 1 or other IFRSs.

\* \* \* \*

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,



Julie A. Erhardt

Chair

IOSCO Standing Committee No. 1