



January 23, 2009

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

**Re: Exposure Draft – Additional Exemptions for First-Time Adopters
(Proposed Amendments to IFRS 1)**

The Committee on Corporate Reporting of Financial Executives International Canada (“FEI Canada”) is writing to provide its response to the International Accounting Standards Board (“IASB”) Exposure Draft (“ED”) Additional Exemptions for First-Time Adopters (Proposed Amendments to IFRS 1). FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and more than 2,100 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada’s leading and most influential corporations.

The Committee on Corporate Reporting (“CCR”) is one of two national advocacy committees of FEI Canada. CCR comprises more than 20 senior financial executives representing a broad cross-section of the FEI Canada membership and of the Canadian economy who have volunteered their time, experience and knowledge to consider and recommend action on a range of issues related to accounting, corporate reporting and disclosure. In addition to advocacy, CCR is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

In summary:

- We support the proposed amendments in respect of oil and gas assets.
- For rate regulated entities, we believe that the IASB should remove the concept of impracticality from the proposed exemption, leaving it consistent with other IFRS 1 exemptions, balancing the cost against the benefits. We also recommend consideration be given to application of the exemption to other intangibles currently within PPE, but which may be reclassified, which are accounted for on a similar basis. Rate-regulated entities should be required to assess for impairment on transition consistent with IAS 36, but not necessarily have to perform the test merely as a result of qualifying for the proposed IFRS 1 exemption.
- For leases, we support the proposal of allowing adoption relief to first time adopters who applied identical criteria to IFRS in their previous basis of GAAP as it recognizes the identical principles being applied and attempts to ease the burden of adoption.

However, we believe that the method of adoption under the previous GAAP (prospective or retroactive) should be ignored in assessing eligibility for such relief.

Finally, we recommend that the IASB expedite the issuance of the amended final IFRS 1 in order to facilitate transition planning for new adopters.

In response to the specific questions in the ED we have the following comments:

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?

FEI Canada agrees with the proposal to permit entities using full cost accounting under its previous GAAP to measure exploration and evaluation assets at the amount determined under the previous GAAP. FEI Canada also agrees with the proposal to permit measurement of oil and gas assets in the development or production phases by allocating the amount determined under previous GAAP for those assets to the underlying assets pro rata using either reserve volumes or reserve values as determined by the appropriate regulatory body. Assigning assets at carrying values and use of reserves to allocate asset values is both cost effective and straightforward. Requiring companies using full cost accounting to recreate asset values for underlying fields or properties could be cost prohibitive and may necessitate estimations that may not necessarily provide more accurate asset values. In our view the costs would therefore significantly outweigh the benefits of doing so.

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?

FEI Canada agrees that, where an entity uses the exemption permitting deemed cost for oil and gas assets, the basis for allocation of determined carrying amounts to underlying assets of companies, be disclosed. Disclosure of the basis for allocation provides transparency to users of the oil and gas disclosures.

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?

FEI Canada supports a proposed deemed cost option for entities with operations subject to rate regulation. The Canadian electricity, gas and pipelines industries, as well as those in the US and other countries, play an important economic role and represent holdings of billions of dollars of assets. Conversion to IFRS, as currently published, would cause these industries to enter into a very costly process of having to retrospectively restate historical records to eliminate items from property, plant and equipment (PPE) that would not otherwise be capitalized under IFRS. In addition, fair value information is not readily available as historical cost is used for the purposes of

rate setting. Not only would determination of fair value be time consuming, but also there is a real concern over the lack of availability of qualified independent valuers.

While we are supportive of the proposed deemed cost option, we are concerned that the hurdle to satisfy the requirements necessary to qualify are sufficiently high that most rate regulated entities could not avail themselves of this option. Under the proposal, a rate-regulated entity must demonstrate that retrospective restatement is impracticable, as defined in IAS 8. This criterion is not required under any other IFRS 1 exemption and runs contrary to the whole approach of IFRS 1 which is to deal with implementation issues on a cost/benefit approach not impracticality. Thus, it does not seem necessary, appropriate or consistent for a rate-regulated entity to have to prove impracticality. Otherwise, we believe these entities and their auditors will enter into discussions of significant debate over where there is impracticality since each entity's circumstances would have to be demonstrated on a case-by-case basis. This will impose a much higher cost of transition for rate-regulated entities compared with a low benefit to be achieved.

Further, the proposed exemption also requires a rate-regulated entity to demonstrate that the current IFRS 1 exemption on fair value as deemed cost is impracticable. Again, this will be the source of significant debate amongst these entities and their auditors and if needed, would be an expensive process given the lack of availability of qualified independent appraisers. We question whether this achieves the objectives under IFRS 1 given that fair value is not used for the purposes of rate setting, and thus, is largely irrelevant in providing any further transparent and meaningful information. The cost of having to determine fair values for a rate regulated entity would clearly outweigh any benefits given fair values are not typically used in the industry. In addition, the current IFRS 1 exemption on fair value is an elective, meaning that an entity may so chose this exemption. We do not believe a rate-regulated entity should have to demonstrate it would not otherwise qualify for the fair value option.

After a rate-regulated entity presumably overcomes the impracticality hurdles as currently proposed, it must then test for impairment under IAS 36. However, IAS 36 paragraph 9 requires an entity to assess for impairment for PPE only where there are indicators of such. Consistent with the above discussion, no other IFRS 1 exemption requires a specific impairment test to be undertaken. Impairment for rate-regulated entities is rare and generally occurs where the entity's regulator deems a cost incurred for PPE to be imprudent. A rate-regulated entity would assess for such cases in the normal course of business.

The impairment test, if performed, would need to be applied on an item-by-item basis. However, an "item" is not defined under IAS 16. We question how relevant such an impairment test will be across rate-regulated entities. As noted, given that a rate regulated entity is one whose rates are established for the purposes of recovering cost (as described in paragraph 19B), the concept of "fair value" in its traditional sense is largely irrelevant for a rate regulated entity.

A final consideration for the exemption is that Canadian entities will need to apply a new accounting standard in 2009, Section 3064, *Goodwill and Other Intangibles*. Section 3064 and IAS 38 are harmonized standards. In some cases, rate-regulated entities will need to reclassify items currently within PPE as intangibles, e.g., easements, rights-of-way, software, etc. The issues surrounding retrospective restatement would apply to intangibles where the capitalization policies of the entity have been followed consistent with those of PPE. For example, large systems infrastructure expenditures typically would have the same types of costs capitalized under a national GAAP that would not be compliant with IFRS. Under IAS 38, the expenditures would be classified as intangibles yet would still have the same difficulty of retrospective

restatement as PPE. Other intangibles, such as easements and rights-of-way, do not have a readily identifiable fair value given they are specific to the entity itself and thus not detachable as a separate asset. Given that these intangibles would be subject to the same costing policies of the entity for rate setting purposes as PPE, we would recommend that the proposed exemption also apply to intangibles previously classified as PPE.

In summary, we believe that the proposed exemption for rate-regulated entities should stand without the additional hurdle of having to demonstrate impracticality, consistent with other IFRS 1 exemptions. We also recommend consideration be given to application of the exemption to other intangibles currently within PPE that will be reclassified by Canadian entities in 2009. Rate-regulated entities should be required to assess for impairment on transition consistent with IAS 36, but not necessarily have to perform the test merely as a result of qualifying for the proposed IFRS 1 exemption.

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?

FEI Canada agrees that allowing adoption relief to first time adopters who applied identical criteria to IFRS in their previous basis of GAAP is an appropriate exemption as it recognizes the identical principles being applied and attempts to ease the burden of adoption.

However, the way that the proposed exemption is worded no relief would be given to first time adopters if the adoption method under the previous basis of GAAP required prospective treatment rather than retrospective treatment. In respect of leases, Canadian GAAP (EIC 150) and IFRS (IFRIC 4) are harmonized in the requirements to assess arrangements to determine if there is a lease and the criteria for determining if an arrangement contains a lease. These requirements are identical under both pieces of guidance. However EIC 150 requires prospective treatment on adoption and the requirement in IFRIC 4 is to apply the guidance to any arrangements that existed as at the effective date, requiring retrospective assessment for those arrangements. As a result, no relief under the proposed amendment would be provided to first time adopters who were allowed to prospectively adopt their previous basis of GAAP. Since IFRS is principles based, the exemption should be based on the identical principles of application rather than adoption methods.

Based on how the exemption is worded it appears that the intention was to allow first time adopters not to change their adoption method if they applied identical guidance, providing relief. However, a strict reading of the exemption, as well as IFRIC 4, would not provide any relief to adopters with prospective adoption. If it is the intention to provide relief to all adopters who are currently applying identical principles, and we believe it should, then the wording of the exemption should be revised to make it clear that whatever adoption method was prescribed under the other basis of GAAP is acceptable as long as the application requirements are identical.

If the intention was not to provide relief to first time adopters who were permitted prospective application under their previous basis of GAAP, then we believe that the exemption should be changed to include prospective application that was acceptable under a previous GAAP on the basis that IFRS is principal based rather than focused on the application of specific adoption methods.

Additionally, the IFRIC recognizes the difficulty in retrospective application of the guidance, especially the difficulty associated with going back in time to make an assessment of whether arrangements might meet the criteria in the guidance (paragraph BC50). The introduction to IFRS 1 also recognizes this difficulty in paragraph IN 4 which states “*The IFRS also prohibits retrospective application of IFRSs in some areas, particularly where retrospective application would require judgements by management about past conditions after the outcome of a particular transaction is already known.*” Under IFRIC 4, one is required to assess whether another party would be taking more than an insignificant portion of the output of the asset. It may be difficult, if not impossible, to make that assessment as if one was at the date of inception of the contract. Since there is recognition of these difficulties though-out IFRS, there is support for allowing relief to first time adopters of IFRS who would have had prospective treatment under their previous basis of GAAP.

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?

FEI Canada does not agree that the situation referred to in Question 4 is the only one in which additional relief of this type is needed. Since one reason for the proposed exemption for leases is the recognition of the difficulty in going back in time to make an assessment of conditions that existed at the time that certain transactions or items existed, a general exemption along those lines would be advisable in the case of first time adoption. This should be consistent with the cost/benefit approach which underpins IFRS 1.

We thank you for the opportunity to provide comments on this exposure draft and would be happy to further discuss our views with you at your convenience.

Yours very truly,



Victor Wells
Chair
Committee on Corporate Reporting
FEI Canada