Deloitte.

Deloitte & Touche Tohmatsu
2 Little New Street
London EC4A 3BZ
United Kingdom

Tel: +44 20 7007 0907
Fax: +44 20 7007 0158
www.deloitte.com
www.iasplus.com

23 January 2009

Sir David Tweedie, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Additional Exemptions for First Time Adopters - Proposed amendments to IFRS 1

Dear Sir David,

We thank you for the opportunity to comment on the exposure draft entitled A*dditional Exemptions for First-time Adopters – Proposed amendments to IFRS 1* ("the ED"). We are pleased to put our comments forward for your consideration in the attached Appendix.

We are generally supportive of the proposed amendments in the ED. We agree with the Board that there are potential challenges for jurisdictions adopting IFRS in the near future which might be alleviated by the proposed exemptions. In particular, we agree that the proposed exemptions should help to limit undue cost and difficulty for certain first time adopters.

We do, however, believe that the amendments relating to oil and gas and rate-regulated entities could be improved. In particular, we would encourage the Board to consider providing more reasoning in the Basis for Conclusions to the Standard to explain what factors were considered to be important in deciding to issue an exemption that allows only certain entities to utilise previous cost amounts as deemed cost on the date of transition, but not others.

With respect to the proposed deemed cost exemption for oil and gas entities, we would also encourage the Board to consider amending the allocation methodology provided in paragraph 19A(b) of the ED to require it to be performed on the basis that provides the most appropriate allocation of deemed cost. Generally we believe that entities should perform an allocation of deemed cost on the basis of relative reserve values (not volumes).

In respect of the proposed exemption for entities with operations subject to rate regulation, we would recommend that the impracticability condition be removed. Such a condition is not consistent with the existing exemptions in IFRS 1 and we presume the Board has already considered the impracticability of applying the existing requirements within IFRS 1 for rate-regulated entities and therefore consider this condition to be redundant.

In addition, we would encourage the Board to amend the proposed exemption relating to IFRIC 4. As it is currently written, we believe it will be difficult to apply in practice, leaving open to interpretation the question of what constitutes an "identical" assessment to IFRIC 4 as well as whether an assessment under national GAAP that is deemed to be "identical" GAAP standard would nonetheless not qualify for the exemption because the national GAAP standard contains transitional provisions that differ from those within IFRIC 4. We believe that in order to provide meaningful relief, IFRS 1 should exempt from reassessment those

contracts which have already been assessed using consistent principles with IFRIC 4 under previous national GAAP requirements.

We have provided detailed comments relating to these, and other, observations in the attached appendix. If you have any questions regarding our comments, please contact Ken Wild at +44 (0) 207 007 0907.

Sincerely,

Ken Wild
Global IFRS Leader

Appendix A: Invitation to Comment

Question 1

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?

Yes, we agree with the proposed deemed cost option for entities using full cost accounting (please see separate comment below on the use of the term 'full cost' in the exposure draft) under previous GAAP on the basis that the Board presumably believes that this option facilitates the timely adoption of IFRS by certain entities in the oil and gas industry. We support the notion of a single set of high-quality global standards and therefore support the Board in taking the steps it believes are warranted and necessary to ensure widespread adoption of IFRS.

However, we would recommend that the Board further explain its reasoning for granting this exemption. We presume that, in recommending this proposed exemption, the Board has considered the circumstances facing a specific jurisdiction and decided to provide special relief to provide a practical solution which results in an appropriate balance between costs and benefits. If the Board's conclusion is based on its assessment of the practicability of full retrospective application, this should be stated explicitly and used to guide future decisions for additional exemptions, especially those with very narrow applicability.

As time moves on and more countries adopt IFRS, constituents may bring other instances to the attention of the Board with a request for further exemptions. Therefore we believe it would be worthwhile for the Board to explain what it considers to be the underlying rationale in deciding whether other specific circumstances warrant additional relief and whether future additional exemptions are necessary for first time adopters.

Reference to the Full Cost Method

The term "full cost method" is an accepted notion under certain national GAAP literature, such as that of Canada and the United States. However, we are concerned with the reference to the "full cost" method as the basis for using the proposed exemption since this is not a recognized term within IFRS. We would encourage the Board to describe the method based on its accounting attributes, rather than using a term that might only apply in certain jurisdictions. For example, the Board could use the following words from the exposure draft, which are currently an asterixed explanation to paragraph 19A and move them into the body of the Standard (new text is underlined):

> *Under some national GAAPs, ~~Under full cost accounting~~ exploration costs for properties in development or in production are accounted for in cost centres that include all properties in a large geographical area. Such cost centres include all expenditures that have been incurred by an entity in relation to the cost centre. A first time adopter using such accounting practices under previous GAAP may elect…*

Allocation Basis

Paragraph 19A(b) proposes that at the date of transition, the carrying amounts of assets relating to the development or production phases of oil and gas activities should be allocated to the underlying assets pro rata using either reserve volumes or reserve values.

In our opinion, in most instances, an allocation on the basis of relative reserve values is more appropriate because it better reflects the value of the underlying assets. Reserve volumes may not provide an accurate representation of the future economic recoverability of the costs being allocated due to quality differentials in the underlying commodities for which costs are included in the full cost pool i.e. sweet crude versus natural gas versus heavy oil etc.

We would recommend that the Board re-draft proposed paragraph 19A(b) as follows:

> *Assets in the development or production phases at the amount determined under the entity's previous GAAP. The entity shall allocate this amount to the underlying assets pro rata using reserve values or reserve volumes, whichever results in the most appropriate allocation of value, as of that date. Generally, reserve values would be considered to provide a more appropriate allocation of value.*

Question 2

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

Assuming the rationale for the oil and gas exemption is sufficiently explained, we are supportive of the related proposed disclosure requirements.

Question 3

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 believe the proposal for rate-regulated entities has the same issues as those noted in Question 1 i.e. the ED does not adequately explain the rationale for providing this exemption. Please see our comments in response to Question 1.

In addition, we disagree with an explicit impracticability condition as part of the proposed exemption and therefore encourage the Board to remove the reference to "if it is otherwise impracticable (as defined in IAS 8) to meet the requirements of this IFRS" in paragraph 19B. We presume that in granting exemptions the Board is recognising that full retrospective application is impractical in some situations. We believe the Board should encourage full retrospective application but otherwise make exemptions available on an unconditional basis.

Decommissioning Liabilities

The proposals under paragraph 25EA provide a special exemption from the requirements relating to decommissioning, restoration and similar liabilities for oil and gas companies that elect to bring full cost balances forward as deemed cost. We understand this decision was made for pragmatic reasons only. If this is indeed the case, we believe the requirements of paragraph 25E should apply equally to entities that elect to use the previous GAAP carrying amounts as deemed cost under either paragraph 19A or 19B and more specifically, believe that paragraph 25EA as proposed in the Standard is appropriate in both cases.

Question 4

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?

Yes. However, we are concerned with the Board's use of the term "same" (paragraph 25F) and "identical" (BC 13) in the proposal. We do not believe the final standard should use the word "identical" because this could lead to a very strict interpretation where a national GAAP standard is not a complete replication of IFRIC 4. Instead, we believe that the exemption should be available where, under previous GAAP, an assessment was made which is consistent with the principles of IFRIC 4.

BC13 implies that an entity could not take advantage of the exemption from reassessment at the date of transition unless the national GAAP standard transition rules were identical to those of IFRIC 14.

We do not believe identical transition rules are necessary. The exemption from reassessment should be available for any arrangement existing at the date of transition that had been assessed under suitable national GAAP prior to the date of transition. We believe the transitional provisions should also clearly state that any arrangement not evaluated under previous GAAP (for example because the national GAAP only required assessment of new arrangements after the date of implementation) will be subject to evaluation under IFRIC 4.

Question 5

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?

No, we are not aware of other situations where relief is needed on the basis that existing national GAAP requirements contain identical provisions to the equivalent requirement under IFRS.