

IAS Plus Update.

Additional Exemptions for First-time Adopters

On 23 July 2009, the International Accounting Standards Board (IASB) issued *Additional Exemptions for First-time Adopters (Amendments to IFRS 1)*.

The amendments result from an Exposure Draft (ED) published for public comment in September 2008.

The ED proposed three new exemptions related to the accounting on first-time adoption for oil and gas assets, assets used in operations subject to rate regulation, and arrangements containing leases. However, the final amendments to IFRS 1 only provide two new exemptions relating to: 1) oil and gas assets and 2) the determination of whether an arrangement contains a lease. The IASB decided not to proceed with the exemption for assets used in operations subject to rate regulation due to pending deliberations on its separate project on rate-regulated activities.

The new exemptions will be reflected in Appendix D of IFRS 1 and will be effective for annual periods beginning on or after 1 January 2010 with earlier application permitted.

Exemption for oil and gas assets

For the purposes of this exemption, the term 'oil and gas assets' is limited to those assets used in the exploration and evaluation (IFRS 6) or development and production (IAS 38) of oil and gas.

Under some national GAAPs, exploration and development costs for oil and gas properties in the development or production phases are accounted for in cost centres that include all properties in a large geographical area.¹

Paragraph D8A has been added to permit a first-time adopter that has previously used this basis of accounting to elect to measure the related oil and gas assets at the date of transition to IFRSs on the following basis:

- (a) exploration and evaluation assets at amounts determined under the entity's previous GAAP; and
- (b) oil and gas assets in the development or production phases at the amount determined for the cost centre under the entity's previous GAAP. The entity shall allocate this amount to the cost centre's underlying assets pro rata using reserve volumes or reserve values as of that date.

Entities electing to use the exemption are required to test both exploration and evaluation assets and assets in the development and production phases for impairment at the date of transition to IFRSs. The exploration and evaluation assets are tested in accordance with IFRS 6 *Exploration for and Evaluation of Mineral Resources* and development and production assets are tested in accordance with IAS 36 *Impairment of Assets*. Any identified impairment losses must be recognised at the date of transition.

Presentation and disclosure

Entities are required to disclose the fact that they have used the deemed cost exemption for oil and gas assets and disclose the basis on which the carrying amounts determined under previous GAAP were allocated.

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¹ This method of accounting is also known as the 'full cost method' in certain jurisdictions. Often, the cost centers used to group costs under this method represent a larger unit of account than would be permitted under IFRSs. The carrying amounts of assets under previous GAAP may include items that do not qualify for capitalisation under IFRSs (e.g. some overheads, costs incurred before legal rights to explore were granted, and unsuccessful exploration costs that have been included in the full cost pool).

Decommissioning liabilities included the cost of property, plant and equipment

If an entity elects to use the deemed cost exemption discussed above for oil and gas assets in the development or production phases, the entity must:

- (a) measure decommissioning, restoration and similar liabilities as at the date of transition to IFRSs in accordance with IAS 37; and
- (b) recognise directly in retained earnings any difference between that amount and the carrying amount of those liabilities at the date of transition to IFRSs determined under the entity's previous GAAP.

This treatment differs from the existing exemption in paragraph D21 of IFRS 1 which requires entities to measure the liability as at the date of transition to IFRSs in accordance with IAS 37 and then estimate the amount that would have been included in the cost of the related asset when the liability first arose, and calculating accumulated depreciation on the amount, as of the date of transition.

Exemption for leases

Under IFRIC 4 *Determining whether an Arrangement contains a Lease*, the assessment as to whether an arrangement contains a lease is made at the inception of the arrangement. Prior to this new exemption, IFRS 1 contained an exemption for all first-time adopters which allowed them to undertake that assessment for existing arrangements based on facts and circumstances at the date of transition to IFRSs. Alternatively, if the exemption was not used an entity was required to refer to facts and circumstances at the inception of the arrangement.

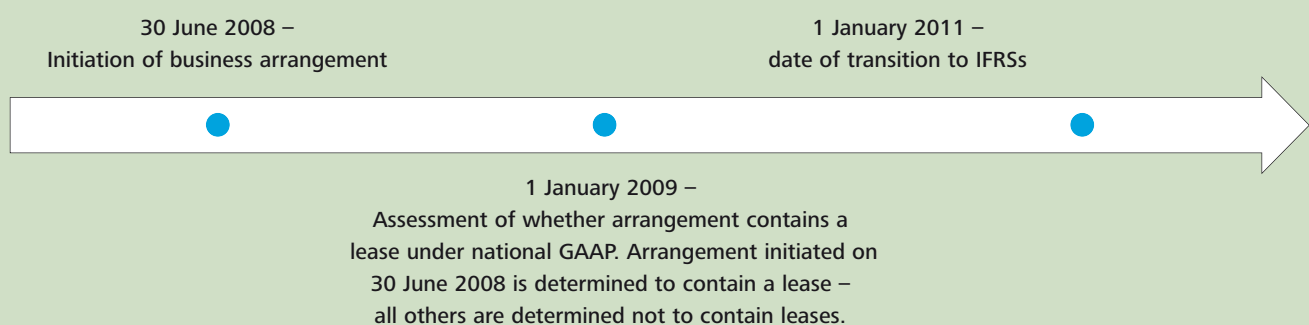
An additional exemption has been added to provide further relief to certain first-time adopters. The new exemption applies to a first-time adopter who has made an assessment of whether an arrangement contains a lease under its previous GAAP that is consistent with IFRIC 4, but at a date other than that required under IFRIC 4. With the exemption, a first-time adopter will not be required to reassess its determination of whether an arrangement contains a lease under previous GAAP if that previous determination would have given the same outcome as that resulting from the application of IAS 17 *Leases* and IFRIC 4.

Illustrative example:

Facts:

Entity X is converting to IFRSs, with a date of transition of 1 January 2011. Effective 1 January 2009, Entity X's national GAAP was amended to include guidance relating to whether an arrangement contains a lease. At the time the national GAAP requirement became effective, Entity X assessed that it had only one arrangement which contained a lease. The arrangement was entered into on 30 June 2008 and remains outstanding at the date of transition to IFRSs.

Entity X has determined that the assessment it performed (i.e. whether an arrangement contained a lease) under national GAAP resulted in the same outcome as would have resulted from the application of IAS 17 and IFRIC 4.



Question:

Will Entity X be required to do anything further under IFRS 1?

Response:

With the new exemption, upon adoption of IFRS, Entity X is not required to reassess whether existing arrangements contain a lease as long as it has made the same determination of whether the arrangements contain leases in accordance with previous GAAP as that required by IFRIC 4. Instead, Entity X can rely on the assessment made under previous GAAP as long as the previous GAAP assessment would have provided the same outcome as that resulting from the application of IAS 17 and IFRIC 4.

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