

# PROPOSED FINANCIAL REPORTING STANDARD

## ED/FRS 101

### Exposure Draft

## Additional Exemptions for First-time Adopters

### Proposed amendments to FRS 101

*Comments to be received by 23 November 2008*

This exposure draft *Additional Exemptions for First-time Adopters* (proposed amendments to FRS 101 *First-time Adoption of Financial Reporting Standards*) is issued by the Accounting Standards Council (ASC) for comment only and does not necessarily represent the views of ASC. The proposals may be modified in the light of the comments received before being issued in final form as amendments to FRS 101.

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explain the problem and provide a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by 23 November 2008 preferably by email to MOF\_Feedback\_ASC@mof.gov.sg or addressed to:

Accounting Standards Council  
c/o Ministry of Finance  
100 High Street #10-01  
The Treasury  
Singapore 179434

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## Introduction and invitation to comment

The International Accounting Standards Board (IASB) is issuing an exposure draft to propose amending IFRS 1 *First-time Adoption of International Financial Reporting Standards* to address potential challenges for jurisdictions adopting IFRSs in the near future.

ASC is issuing the equivalent exposure draft in Singapore.

ASC invites comments on any aspect of this exposure draft. It particularly welcomes answers to the questions set out below. Comments are most helpful if they:

- (a) answer the question as stated,
- (b) indicate the specific paragraph or paragraphs to which they relate,
- (c) contain a clear rationale, and
- (d) describe any alternative the ASC should consider.

Respondents need not comment on all of the questions. ASC is not requesting comments on matters in FRS 101 not addressed in this exposure draft.

ASC will consider all comments received in writing by **23 November 2008**. In considering the comments, the ASC will base its conclusions on the merits of the arguments for or against each alternative, not on the number of responses supporting each alternative.

The IASB plans to publish later this year a reformatted version of IFRS 1, based on proposals published in October 2007. The reformatting will not affect the substance of the proposals in this exposure draft, which shows the proposed changes to FRS 101 in its existing format.

### Question 1—Deemed cost for oil and gas assets

The exposure draft proposes that an entity that used full cost accounting under its previous GAAP may elect, at the date of transition to FRSs, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP and to measure oil and gas assets in the development or production phases 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 as of that date.

#### *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?

### Question 2—Oil and gas assets—disclosure

The exposure draft proposes that if an entity uses the exemption described in Question 1 above, it must disclose that fact and the basis on which it allocated the carrying amounts to the underlying assets.

#### *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?

### Question 3—Deemed cost for operations subject to rate regulation

The exposure draft proposes an exemption for an entity with operations subject to rate regulation. Such an entity could elect to use the carrying amount of items of property, plant and equipment held,

or previously held, for use in such operations as their deemed cost at the date of transition to FRSs if both retrospective restatement and using fair value as deemed cost are impracticable (as defined in FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).

### *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?

### **Question 4—Leases**

The exposure draft proposes that if a first-time adopter made the same determination under previous GAAP as that required by INT FRS 104 *Determining whether an Arrangement contains a Lease* but at a date other than that required by INT FRS 104, the first-time adopter need not reassess that determination when it adopts FRSs.

### *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?

### **Question 5—Assessments under previous GAAP before the date of transition to FRSs**

It was considered whether to modify FRS 101 so that entities need not reassess, at the date of transition to FRSs, prior accounting if that prior accounting permitted the same prospective application as FRSs with the only difference from FRSs being the effective date from which that accounting was applied. In this regard, it was noted that any such proposal must apply to *identical*, rather than *similar* accounting, because it would be too difficult to determine and enforce what constitutes a sufficient degree of similarity. It was decided not to adopt such a modification because it concluded that the situation referred to in Question 4 is the only one in which relief of this type is needed.

### *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?

## Proposed amendments to FRS 101

Paragraphs 19A, 19B and 25EA, a heading and paragraphs 44B and 47M are added. Paragraph 13(b), a heading and paragraphs 25E and 25F are amended (new text is underlined and deleted text is struck through).

### Recognition and measurement

#### Exemptions from other FRSs

13 An entity may elect to use one or more of the following exemptions:

- (a) ...
- (b) ~~fair value or revaluation as deemed cost~~ (paragraphs 16–19B);

#### ~~Fair value or revaluation as d~~ Deemed cost

19A A first-time adopter using full cost accounting\* under previous GAAP may elect to measure oil and gas assets at the date of transition to FRSs<sup>†</sup> on the following basis:

- (a) exploration and evaluation assets at the amount determined under the entity's previous GAAP; and
- (b) 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 volumes or reserve values as of that date.

The entity shall test exploration and evaluation assets and assets in the development and production phases for impairment at the date of transition to FRSs in accordance with FRS 106 *Exploration for and Evaluation of Mineral Resources* or FRS 36 *Impairment of Assets* respectively and, if necessary, reduce the amount determined in accordance with (a) or (b) above. For the purposes of this paragraph, oil and gas assets comprise only those assets used in the exploration, evaluation, development or production of oil and gas.

19B Some entities hold, or have previously held, items of property, plant and equipment for use in operations subject to rate regulation. The carrying amount of such items sometimes includes amounts that were determined under previous GAAP but do not qualify for capitalisation in accordance with FRSs. If this is the case, a first-time adopter may elect to use the carrying amount of such an item at the date of transition to FRSs if it is otherwise impracticable (as defined in FRS 8) to meet the requirements of this FRS. An entity shall apply this election item by item. At the date of transition to FRSs, an entity shall test each item for which this exemption is used for impairment in accordance with FRS 36 and, if necessary, reduce the carrying amount. For the purposes of this paragraph, operations are subject to rate regulation

\* Under full cost accounting, exploration and development costs for properties in development or in production are accounted for in cost centres that include all properties in a large geographical area.

† Note for exposure draft readers: Appendix A of FRS 101 defines the 'date of transition to FRSs' as: 'The beginning of the earliest period for which an entity presents full comparative information under FRSs in its first FRS financial statements.'

if they provide services or products to customers at prices (ie rates) established by legislation, an independent regulator or other authorised body that are designed to recover the cost of providing the services or products and allow the entity to earn a determined return on investment.

### **Changes in existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment**

25E ...

(c) ... under FRSs.

An entity that uses the exemption in paragraph 19B (for operations subject to rate regulation) uses the amount as determined in accordance with that paragraph as the depreciable amount to be adjusted as a result of this paragraph.

25EA An entity that uses the exemption in paragraph 19A(b) (for oil and gas assets in the development or production phases accounted for using full cost accounting under previous GAAP) shall, instead of applying paragraph 25E or INT FRS 101:

(a) measure decommissioning, restoration and similar liabilities as at the date of transition to FRSs in accordance with FRS 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 FRSs determined under the entity's previous GAAP.

### **Leases**

25F A first-time adopter may apply the transitional provisions in INT FRS 104 *Determining whether an Arrangement contains a Lease*. Therefore, a first-time adopter may determine whether an arrangement existing at the date of transition to FRSs contains a lease on the basis of facts and circumstances existing at that date. If a first-time adopter made the same determination under previous GAAP as that required by INT FRS 104 but at a date other than that required by INT FRS 104, the first-time adopter need not reassess that determination at the date of transition to FRSs.

## **Presentation and disclosure**

### **Explanation of transition to FRSs**

#### **Use of deemed cost for oil and gas assets**

44B If an entity uses the exemption in paragraph 19A(b) for oil and gas assets, it shall disclose that fact and the basis on which carrying amounts determined under previous GAAP were allocated.

### **Effective date**

47M An entity shall apply the amendments in paragraphs 13(b), 19A, 19B, 25E, 25F and 44B for annual periods beginning on or after [date to be inserted after exposure]. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

## Appendix

### **Proposed amendment to the guidance on implementing FRS 101 *First-time Adoption of International Financial Reporting Standards***

Paragraph IG206 is added.
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#### **INT FRS 104 *Determining whether an Arrangement contains a Lease***

IG206 Paragraph 25F of FRS 101 provides a transitional exemption in addition to that discussed in paragraph IG205. If an entity applied previous GAAP requiring a determination identical to that required by INT FRS 104 and that previous GAAP had transitional provisions identical to those in INT FRS 104 (the result being that the only difference in accounting is a different effective date from the one in the transitional provisions of INT FRS 104) that entity may elect to use the determination in accordance with the previous standard.