COMMISSION REGULATION (EC) No 707/2004

of 6 April 2004

amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community.

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards [1], and in particular Article 3(1) thereof,

Whereas:

(1) On 29 September 2003 the Commission adopted Regulation (EC) No 1725/2003 [2], which endorses interpretations adopted by the Standing Interpretation Committee (SIC). One of these interpretations is SIC-8 First-time application of IASs as the primary basis of accounting. In accordance with this interpretation, when international accounting standards (IASs) are applied in full for the first time as the primary accounting basis, the financial statements of an enterprise must be prepared and presented as if its financial statements had always been prepared in accordance with the standards and interpretations in force at the time of that first application. In consequence, retrospective application is required in most areas of accounting.

(2) In order to facilitate the transition to international accounting standards and international financial reporting standards (IAS/IFRSs), the International Accounting Standards Board (IASB) decided on 19 June 2003 to replace SIC-8 with — IFRS 1: First-time adoption of International Financial Reporting Standards. In accordance with IFRS 1, an enterprise applying IASs for the first time must comply with every single IAS and Interpretation in force at the time of that first application. Thus, like SIC-8, IFRS 1 requires retrospective application in most areas of accounting. However, IFRS 1 grants limited exemptions from that requirement in specified areas for practical reasons or where the costs entailed by compliance would most likely outweigh the benefit to users of financial statements.

(3) IFRS 1 should make it possible to achieve comparability over time both within the IFRS financial statements of a first-time adopter and as between the financial statements of different enterprises adopting IFRSs for the first time on a given date, because both current and comparative figures are based on the same set of standards existing at the time of first time application of IAS. Achieving comparability as between first-time adopters and enterprises that already apply IFRSs is, however, a secondary objective, given the fact that the number of first-time adopters in 2005 will largely exceed that of the 200 to 300 EU companies already applying IAS/IFRSs.

(4) Consultation with technical experts in the field confirms that the international financial reporting standard meets the criteria for adoption set out in Article 3 of Regulation (EC) No 1606/2002, and in particular the requirement of being conducive to the European public good.

(5) Regulation (EC) No 1725/2003 should therefore be amended accordingly.

(6) The measure provided for in this Regulation is in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Article 1

In the Annex to Regulation (EC) No 1725/2003, SIC-8 First-time application of IASs as the primary basis of accounting is replaced by the text set out in the Annex to this Regulation.

Article 2

This Regulation shall enter into force on the 20th day following that of its publication in the *Official Journal of the European Union*.

[1] OJ L 243, 11.9.2002, p. 1.
[2] OJ L 261, 13.10.2003, p. 1.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 6 April 2004.

For the Commission
Frederik BOLKESTEIN
Member of the Commission

ANNEX

'IFRS 1 — First-time adoption of International Financial Reporting Standard

International Financial Reporting Standard 1 First-time Adoption of International Financial Reporting Standards (IFRS 1) is set out in paragraphs 1 to 47 and Appendices A-C. All the paragraphs have equal authority. Paragraphs in bold type state the main principles. Terms defined in Appendix A are in italics the first time they appear in the Standard. Definitions of other terms are given in the Glossary for International Financial Reporting Standards. IFRS 1 should be read in the context of its objective and the Basis for Conclusions, the Preface to International Financial Reporting Standards and the Framework for the Preparation and Presentation of Financial Statements. These provide a basis for selecting and applying accounting policies in the absence of explicit guidance.

INTRODUCTION

Reasons for issuing the IFRS

IN1. The IFRS replaces SIC-8 First-time Application of IASs as the Primary Basis of Accounting. The Board developed this IFRS to address concerns that:

(a) some aspects of SIC-8's requirement for full retrospective application caused costs that exceeded the likely benefits for users of financial statements. Moreover, although SIC-8 did not require retrospective application when this would be impracticable, it did not explain whether a first-time adopter should interpret impracticability as a high hurdle or a low hurdle and it did not specify any particular treatment in cases of impracticability.

(b) SIC-8 could require a first-time adopter to apply two different versions of a Standard if a new version were introduced during the periods covered by its first financial statements prepared under IASs and the new version prohibited retrospective application.

(c) SIC-8 did not state clearly whether a first-time adopter should use hindsight in applying recognition and measurement decisions retrospectively.

(d) there was some doubt about how SIC-8 interacted with specific transitional provisions in individual Standards.

Main features of the IFRS

IN2. The IFRS applies when an entity adopts IFRSs for the first time by an explicit and unreserved statement of compliance with IFRSs.

IN3. In general, the IFRS requires an entity to comply with each IFRS effective at the reporting date for its first IFRS financial statements. In particular, the IFRS requires an entity to do the following in the opening IFRS balance sheet that it prepares as a starting point for its accounting under IFRSs:

(a) recognise all assets and liabilities whose recognition is required by IFRSs;

(b) not recognise items as assets or liabilities if IFRSs do not permit such recognition;

(c) reclassify items that it recognised under previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under IFRSs; and

(d) apply IFRSs in measuring all recognised assets and liabilities.

IN4. The IFRS grants limited exemptions from these requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements. 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.

IN5. The IFRS requires disclosures that explain how the transition from previous GAAP to IFRSs affected the entity's reported financial position, financial performance and cash flows.

IN6. An entity is required to apply the IFRS if its first IFRS financial statements are for a period beginning on or after 1 January 2004. Earlier application is encouraged.

Changes from previous requirements

IN7. Like SIC-8, the IFRS requires retrospective application in most areas. Unlike SIC-8, the IFRS:

(a) includes targeted exemptions to avoid costs that would be likely to exceed the benefits to users of financial statements, and a small number of other exceptions for practical reasons.

(b) clarifies that an entity applies the latest version of IFRSs.

(c) clarifies how a first-time adopter's estimates under IFRSs relate to the estimates it made for the same date under previous GAAP.

(d) specifies that the transitional provisions in other IFRSs do not apply to a first-time adopter.

(e) requires enhanced disclosure about the transition to IFRSs.

INTERNATIONAL FINANCIAL REPORTING STANDARD 1

First-time adoption of International Financial Reporting Standards

OBJECTIVE

1. The objective of this IFRS is to ensure that an entity's first IFRS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:

(a) is transparent for users and comparable over all periods presented;

(b) provides a suitable starting point for accounting under International Financial Reporting Standards (IFRSs); and

(c) can be generated at a cost that does not exceed the benefits to users.

SCOPE

2. An entity shall apply this IFRS in:

(a) its first IFRS financial statements; and

(b) each interim financial report, if any, that it presents under IAS 34 Interim Financial Reporting for part of the period covered by its first IFRS financial statements.

3. An entity's first IFRS financial statements are the first annual financial statements in which the entity adopts IFRSs, by an explicit and unreserved statement in those financial statements of compliance with IFRSs. Financial statements under IFRSs are an entity's first IFRS financial statements if, for example, the entity:

(a) presented its most recent previous financial statements:

(i) under national requirements that are not consistent with IFRSs in all respects;

(ii) in conformity with IFRSs in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with IFRSs;

(iii) containing an explicit statement of compliance with some, but not all, IFRSs;

(iv) under national requirements inconsistent with IFRSs, using some individual IFRSs to account for items for which national requirements did not exist; or

(v) under national requirements, with a reconciliation of some amounts to the amounts determined under IFRSs;

(b) prepared financial statements under IFRSs for internal use only, without making them available to the entity's owners or any other external users;

(c) prepared a reporting package under IFRSs for consolidation purposes without preparing a complete set of financial statements as defined in IAS 1 Presentation of Financial Statements; or

(d) did not present financial statements for previous periods.

4. This IFRS applies when an entity first adopts IFRSs. It does not apply when, for example, an entity:

(a) stops presenting financial statements under national requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with IFRSs;

(b) presented financial statements in the previous year under national requirements and those financial statements contained an explicit and unreserved statement of compliance with IFRSs; or

(c) presented financial statements in the previous year that contained an explicit and unreserved statement of compliance with IFRSs, even if the auditors qualified their audit report on those financial statements.

5. This IFRS does not apply to changes in accounting policies made by an entity that already applies IFRSs. Such changes are the subject of:

(a) requirements on changes in accounting policies in IAS 8 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies; and

(b) specific transitional requirements in other IFRSs.

RECOGNITION AND MEASUREMENT

Opening IFRS balance sheet

6. An entity shall prepare an opening IFRS balance sheet at the date of transition to IFRSs. This is the starting point for its accounting under IFRSs. An entity need not present its opening IFRS balance sheet in its first IFRS financial statements.

Accounting policies

7. **An entity shall use the same accounting policies in its opening IFRS balance sheet and throughout all periods presented in its first IFRS financial statements. Those accounting policies shall comply with each IFRS effective at the *reporting date* for its first IFRS financial statements, except as specified in paragraphs 13 to 34.**

8. An entity shall not apply different versions of IFRSs that were effective at earlier dates. An entity may apply a new IFRS that is not yet mandatory if it permits early application.

Example: Consistent application of latest version of IFRSs

BACKGROUND

The reporting date for entity A's first IFRS financial statements is 31 December 2005. Entity A decides to present comparative information in those financial statements for one year only (see paragraph 36). Therefore, its date of transition to IFRSs is the beginning of business on 1 January 2004 (or, equivalently, close of business on 31 December 2003). Entity A presented financial statements under its previous GAAP annually to 31 December each year up to, and including, 31 December 2004.

APPLICATION OF REQUIREMENTS

Entity A is required to apply the IFRSs effective for periods ending on 31 December 2005 in:

(a) preparing its opening IFRS balance sheet at 1 January 2004; and

(b) preparing and presenting its balance sheet for 31 December 2005 (including comparative amounts for 2004), income statement, statement of changes in equity and cash flow statement for the year to 31 December 2005 (including comparative amounts for 2004) and disclosures (including comparative information for 2004).

If a new IFRS is not yet mandatory but permits early application, entity A is permitted, but not required, to apply that IFRS in its first IFRS financial statements.