



9 December 2011

International Accounting Standards Board
Attn. Hans Hoogervorst
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Hans,

Re: Deferral of the effective dates of IFRS 10, IFRS 11 and IFRS 12

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to request a deferral of the effective date of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (the 'Standards').

Issue

In January 2011, when we responded to the IASB's Request for Views on *Effective Dates and Transition Methods*, we asked the Board to select the effective date of the Standard such that constituents would have sufficient time to develop a consistent understanding of the requirements. However, we do not believe that the effective date of 1 January 2013 would allow for this to be the case anymore because of the following developments:

- (a) Some constituents started raising concerns about the effective dates of the Standards shortly after they were published. From the final wording of the Standards, it had become clear to them that developing a common understanding of how the principles should be applied, would require more effort and time than they had originally expected. They noted that, while they followed the development of the Standards closely, they could only start considering the implementation of the requirements after the Standards were published. We note here that the Standards were only published in May 2011, rather than in the beginning of 2011 as had been originally expected.
- (b) A further concern that has been brought to our attention is that the IASB is currently working on two projects that affect the application of IFRS 10 and that create uncertainty for constituents:
 - (i) *Amendments to the Transition Guidance in IFRS 10* – These proposed clarifications and changes to the transition guidance have yet to be exposed for comments and will be finalised around the middle of 2012. That leaves constituents and authorities with considerable uncertainty on the wording

and implementation of IFRS 10 until shortly before its effective date. It also raises some timing concerns in terms of the endorsement of these amendments for use in the EU.

- (ii) *Investment Entities* – The exposure draft issued by the IASB requires the parent of an investment entity that is not itself an investment entity to consolidate all of its controlled entities including those it holds through subsidiaries that are investment entities. However, the corresponding FASB exposure draft does not require such parent entities to consolidate those controlled entities that it holds through subsidiaries that are investment entities. In its exposure draft, the IASB has asked its constituents whether or not they agree with the proposed requirements. Some constituents in the financial services industry and insurance industry have raised the concern with EFRAG that they might be required to start consolidation of certain entities under IFRS 10 (e.g. mutual funds for which they are considered to be the principal), but might be forced to adopt investment entity accounting shortly afterwards if the IASB were to align its final decision with the FASB's current position.
- (c) As you may know, EFRAG staff has conducted field-tests of the requirements of IFRS 10 and IFRS 11 in recent months. The field-tests confirm the concerns listed under (a) and (b) above. In both field-tests some participants noted that they have concerns that the mandatory effective date of 1 January 2013 would not allow them sufficient time to implement the new requirements and make the required assessments. The issue regarding IFRS 10 is concentrated in the financial services industry and insurance industry, with SEC registrants reporting particular problems relating to the retrospective application of the Standards. The main general issue raised regarding IFRS 11 concerns the need to access detailed information regarding joint arrangements.

EFRAG notes that given the considerable interaction between the requirements of the standards in the package, the IASB has required that they be implemented at the same date. EFRAG agrees with this requirement. All standards in the package must therefore have the same effective date.

Request

For these reasons, EFRAG believes that the effective date of the Standards should be deferred to the later of (a) 1 January 2014 or (b) 12 months after the amendments to IFRS 10 and the standard on investment entities have both been published. This would allow companies to plan and implement the Standards in an orderly manner, which would contribute to the quality of the information reported.

If you wish to discuss this issue further, please do not hesitate to contact Isabel Batista or me.

Yours sincerely

Françoise Flores

EFRAG, Chairman



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22 December 2011

Dear Françoise

Thank you for your letter requesting a deferral of the effective dates of IFRS 10, IFRS 11 and IFRS 12, which I received on 20 December.

Your request causes us some difficulty, coming to us seven months after the standards were issued. They have already been endorsed in many countries.

I am particularly concerned about any possibility of delaying IFRS 12. That standard introduces disclosure requirements that respond to concerns raised during the financial crisis and address disclosure shortfalls already completed by the FASB. I think it would be very difficult to justify delaying important improvements to financial reporting that the G20 and FSB have been requesting.

The changes that IFRS 10 will bring are also in response to the financial crisis, insofar as they relate to structured entities. The changes build on and clarify the principles of control. We received strong support for the new sections on principal-agent relationships, which you say are now causing difficulty. I must say that it troubles me that some banks are saying that they are having difficulty determining whether they control other entities. If they really do not know what activities they control it suggests that the reforms should be implemented sooner rather than later.

In your letter you cite the uncertainty creating by two exposure drafts related to IFRS 10—the clarifications to the transitional provisions and the *Investment Entities* exception.

The amendments to IFRS 10 that we exposed this week are intended to clarify the transitional provisions. Unfortunately, some preparers are interpreting the transitional provisions in a way that is considerably more burdensome than was intended by the Board. We expect the changes to allay those fears. I have asked the staff to have the comment letter summary ready for the April Board meeting. Unless something unexpected emerges I see no reason why we cannot finalise that clarification by the end of May. Assuming this clarification proceeds it actually gives those applying IFRS 10 more time to prepare, because they do not have to reassess any interests that hold before but not on or after 1 January 2013.

The *Investment Entities* exception is more of a difficulty. I understand the concerns that an entity would have if it needed to consolidate entities it controls when it first applies IFRS 10 only to stop consolidating those entities and measure the net investment at fair value accounting, if it meets the definition of an Investment Entity. It seems that you have been told that this problem could be quite

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prevalent, particularly if the IASB allows the accounting to roll up to the ultimate parent, as is proposed by the FASB. It is not clear which direction the Board will go on this matter, but I do know that more than half of the Board would have dissented if the IASB proposal had included a roll-up.

I have spoken to the team looking after the Investment Entity project and made it clear that we need clear direction on this project by June. It will take us a little longer to publish any documents, if the Board does go ahead with an exception to consolidation for this special class of entities. However, I think we will be able to provide some certainty fairly early in the redeliberations.

In the interim, I am having the team have a closer look at this matter, to get more evidence on the real extent of this issue. I will also ensure that the Board discusses this matter and consider your concerns in a public meeting. To this end, it would be helpful if you could have your staff provide us with the evidence you have collected to support your call for a deferral.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Hans Hoogervorst', written over a horizontal line.

Hans Hoogervorst

IASB Chairman