



European Financial Reporting Advisory Group ■

DRAFT COMMENT LETTER

Comments should be sent to commentletter@efrag.org by 21 December 2009

XX December 2009

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir/ Madam

IASB ED Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters published in November 2009. This letter is submitted in EFRAG's capacity of contributing to IASB's due process and does not necessarily indicate the conclusions that would be reached in its capacity of advising the European Commission on endorsement of the definitive interpretations/amendments on the issues.

The proposed amendment allows a first-time adopter of IFRS to apply the exemption from comparative disclosures in IFRS 7 as amended in March 2009 to the extent that the entity's first IFRS reporting period starts earlier than 1 January 2010.

Our detailed comments on the ED are set out in the appendix to this letter. To summarise, we agree with the proposed amendment. However, we have some concerns with regard to the proposed effective date.

We hope that you find the comments helpful. If you wish to discuss them further, please do not hesitate to contact Stuart Studsrud or me.

Yours sincerely,

Stig Enevoldsen
EFRAG, Chairman

Appendix

ERAG's detailed comments on the amendments proposed

Notes for EFRAG's constituents

- 1 *In March 2009, the IASB amended IFRS 7 Financial Instruments: Disclosures to require enhanced disclosures about fair value measurements and liquidity risk. Due to an urgent need for such disclosures, the IASB backdated the effective date for the amendment to become effective for periods beginning on or after 1 January 2009.*
- 2 *The IASB provided relief in paragraph 44G that in the first year of application of the amendment, an entity need not provide comparative information for the disclosures required by the amendment.*
- 3 *Subsequent to the issuance of the above amendment to IFRS 7, it was brought to the attention of the IASB that the relief regarding restatement of comparatives, as explained above, would not be available for first-time adopters because IFRS 1 explicitly states that:*

An entity shall use the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements. (Paragraph 7)

The transition provisions in other IFRSs apply to changes in accounting policies made by an entity that already uses IFRSs; they do not apply to a first-time adopter's transition to IFRS, except as specified in Appendices B-E. (Paragraph 9)

Therefore, if an entity prepares its first IFRS financial statements in 2009, it would have to restate its comparative disclosures in accordance with IFRS 7 disclosure requirements that became effective for annual periods starting on or after 1 January 2009. The relief from comparative disclosures that is available in the transitional provisions of IFRS 7 for those requirements is not applicable to first-time adopters.
- 4 *The IASB considered whether to provide the same relief to first-time adopters consistent with the transition provisions of IFRS 7. The IASB noted that the main reason for providing the relief was that due to the urgent need for the enhanced disclosures, the IASB had to forego a normal lead time (at least 6-18 months from issue to the effective date). The IASB concluded that a lack of the lead time could have precluded most entities from presenting comparative information without significant effort and potential hindsight.*
- 5 *Based on the same reasons, the IASB tentatively decided that first-time adopters would be in the same position as existing preparers of IFRS and as such the same exemption should apply.*
- 6 *As a result, the IASB proposes in the ED that a first-time adopter may apply the transitional provisions in paragraph 44G of IFRS 7 to the extent that the entity's first IFRS reporting period starts earlier than 1 January 2010.*
- 7 *The IASB is proposing that the amendment to IFRS 1 will be effective for annual periods beginning or after 1 July 2010 with early application permitted.*

Question 1 – Consistent disclosure transition provisions

The Board proposes to amend Appendix E of IFRS 1 to include transition provisions for first-time adopters consistent with the transition provisions in paragraph 44G of IFRS 7 Financial Instruments: Disclosures.

Do you agree with the proposal? If not, why not?

EFRAG's comments

- 8 EFRAG agrees with the amendment proposed and the reasoning behind the amendment.

Question 2 – Effective date

The proposed amendment to IFRS 1 would be effective for annual periods beginning on or after 1 July 2010 with early application permitted.

Do you agree that this amendment should apply for annual periods beginning on or after 1 July 2010 with early adoption permitted? If not, why not?

EFRAG's comments

- 9 We understand that the effective date for this amendment was set out to be in line with how the IASB generally sets out effective dates.
- 10 However, in this particular case, following the usual practice creates a contradiction between the effective date and what the amendment tries to achieve. Thus, it is impossible to apply the relief from restatement of the comparatives in line with the effective date for annual periods starting on or after 1 July 2010 because the relief is available for periods that start earlier than 1 January 2010. The only way entities could make use of the relief is by adopting it early.
- 11 It seems that it would be more appropriate if the effective date of the amendment would be set out so that it is in line with the time frame during which first-time adopters can make use of the amendment even if the IASB had to backdate the effective date.
- 12 EFRAG notes that precedents of backdating exist: the IASB backdated the effective date of the amendment to IFRS 7 to which the relief relates - it was issued in March but the effective date was 1 January 2009. At the same time we emphasise that EFRAG is generally against backdating effective dates and only suggests it here due to an exceptional nature of this amendment as explained above.