esma European Securities and Markets Authority

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IASB
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

The IASB's Exposure Draft *Improvements to IFRSs*

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to safeguarding the stability of the European Union's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as by enhancing investor protection.

ESMA has considered through its Standing Committee on Corporate Reporting the IASB's Exposure Draft (ED) *Improvements to IFRSs*. We thank you for this opportunity to contribute to the IASB's due process. We are pleased to provide you with the following comments aimed at improving the decision-usefulness of financial statements and the transparency and enforceability of IFRSs.

As we believe that the proposals set out in the ED contribute to improving financial reporting ESMA is generally supportive of the amendments in the ED. There are however two issues which we would like to bring to the Board's attention:

— IFRS 1 – *First-time Adoption of International Financial Reporting Standards (IFRS)*

The IASB proposes to clarify that an entity is required to apply IFRS 1 when the entity's most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRSs. We believe that it would be beneficial if the Board could clarify in the Basis for Conclusions that a listed entity should also apply IFRS 1 after preparing pro forma IFRS financial information (including IFRS 1) in a prospectus. We believe that doing so is important for investors.

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— *Unconditional Right to Defer Settlement' in paragraph 69(d) of IAS 1*

In the January 2011 IFRIC Update, the IFRS Interpretations Committee decided to recommend the Board to amend the wording of paragraph 73 of IAS 1 – *Presentation of Financial Statement* to clarify the meaning of 'unconditional right to defer settlement' in paragraph 69(d) of IAS 1. The purpose of the amendment was to clarify that when an entity renegotiates an existing loan for at least 12 months after the reporting period, with the same lender at the same or similar terms, it classifies the loan as non-current. Indeed, the practical application of the issue involves the classification of a short-term obligation (commercial paper) when it is backed by a long term loan facility. After its outreach the Committee noted diversity in practise in circumstances where an existing loan facility is renegotiated with the same lender, but at different terms.

We would like to suggest the Board to deal with this issue as part of the improvements to IFRS projects.

I would be happy to discuss all or any of these issues further with you.

Yours sincerely,

Julie Galbo
Chair of ESMA's Corporate Reporting Standing Committee