European Securities and Markets Authority

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IASB

30 Cannon Street
London EC4M 6XH
United Kingdom

The IASB's Request for Views on Effective Date and Transition Methods

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 Request for Views on *Effective Date and Transition Methods*.

We thank you for this opportunity to contribute to IASB's due process and to comment on your draft response and we are pleased to provide you with the following comments.

ESMA appreciates the IASB's efforts to develop an implementation plan for new IFRSs, in view of the relatively high number of new (or revised) standards that are on the way. As the IASB notes, these new IFRSs are occurring in a period of regulatory change and continuing economic uncertainty for many entities.

Our detailed comments on the IASB's Request for Views are set out in the Appendix to this letter.

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

Yours sincerely,

Fernando Restoy
Chairman of ESMA's Corporate Reporting Standing Committee

APPENDIX – ESMA's detailed answers to the questions in the IASB's Request for Views on *Effective Dates and Transition Methods*

Question 1

Please describe the entity (or the individual) responding to this Request for Views.

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. In particular, ESMA fosters supervisory convergence both amongst securities regulators, and across financial sectors by working closely with the other European Supervisory Authorities competent in the field of banking (EBA), and insurance and occupational pensions (EIOPA).

ESMA's work on securities legislation contributes to the development of a single rule book in Europe. This serves two purposes: firstly, it ensures the consistent treatment of investors across the Union, enabling an adequate level of protection of investors through effective regulation and supervision; secondly, it promotes conditions of equal competition for financial service providers, as well as ensuring the effectiveness and cost efficiency of supervision for supervised companies. This includes coordinating enforcement of IFRS in the EU through ESMA's European Enforcers Coordination Sessions (EECS). Where required by European law, ESMA undertakes the supervision of certain entities whose activities are pan-European in nature.

Finally, ESMA also contributes to the financial stability of the European Union, in the short, medium and long-term, through its contribution to the work of the European Systemic Risk Board, which identifies potential risks to the financial system and provides advice to reduce possible threats to the financial stability of the Union. ESMA is also responsible for coordinating the actions of securities supervisors and for adopting emergency measures if a crisis situation arises.

Question 3

Do you foresee other effects on the broader financial reporting system arising from these new IFRSs? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

ESMA clearly believes that the primary function of financial reporting standards applied in financial statements is to meet the needs of investors. This said, whilst it may not be desirable or practical to attempt to fully 'align' the accounting standards adoption with the implementation of regulatory rules, we encourage the IASB to continue its dialogue in this respect with, for example, prudential regulators.

Question 4

Do you agree with the transition method as proposed for each project, when considered in the context of a broad implementation plan covering all the new requirements? If not, what changes would you recommend, and why? In particular, please explain the primary advantages of your recommended changes and their effect on the cost of adapting to the new reporting requirements.

In general, ESMA is supportive of a full retrospective adoption model as a default option, with some reasonable allowance for impracticability using the existing model in IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*. We encourage the IASB to require full retrospective application in this way more often than is currently the case. However we acknowledge that in some circumstances there are strong arguments against it, such as when full retrospective application would result in preparers applying hindsight to past transactions, or when costs clearly outweigh benefits for investors.

The rationale for ESMA's view is that comparability – both across firms and across time – is a key element of financial reporting and in the use of financial statements by investors.

Question 5

In thinking about an overall implementation plan covering all of the standards that are the subject of this Request for Views:

- **(a) Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimise the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimising disruption, or other synergistic benefits).**
- **(b) Under a single date approach and assuming the projects noted in the introduction are completed by June 2011, what should the mandatory effective date be and why?**
- **(c) Under the sequential approach, how should the new IFRSs be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new IFRSs;**

(d) Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

ESMA recognises that a single date approach may cause less issues of comparability than a sequential approach and, in an ideal world, this would be our preferred option. However, the complexity of some of the recent projects clearly necessitates a longer lead time, and we are not convinced it would be helpful from the viewpoint of financial reporting to delay the adoption of other projects for the purpose of achieving a single date for adoption.

This is why ESMA does not believe that there is inherent virtue in either a 'big bang' (single date) or 'splatter' (sequential date) approach to adoption. Rather, ESMA believes that complexity and its consequent impact on lead times, and logical linkages between standards, should be key drivers for the timetable. To elaborate:

- *Complexity and the consequent 'lead time' required*. Some of the standards are more evolutionary rather than revolutionary, and so are likely to require a relatively shorter lead time. This is likely to be the case for standards on *Post-employment benefits – Defined benefit plans* and *Fair value measurement*.
- *Linkages between standards*. ESMA believes that standards on *Financial Instruments* and *Insurance contracts* should be implemented simultaneously, given the obvious linkage between them in terms of balance sheet measurement. The proposed *Fair Value Measurement* standard is also clearly linked, although as noted above, this could also be introduced earlier.

Question 6

Should the IASB give entities the option of adopting some or all of the new IFRSs before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

In jurisdictions already using IFRS, the ability to adopt standards early may erode the benefits of comparability across entities and thus ESMA is not generally supportive of early adoption in such cases. However, as explained in the response to question 8 below, ESMA recognises that jurisdictions in the process of adopting IFRS may wish to adopt standards early rather than implement old standards for a short period of time.

Question 7

Do you agree that the IASB and FASB should require the same effective dates and transition methods for their comparable standards? Why or why not?

ESMA believes that comparability of financial information would be enhanced if the IASB and FASB were to require the same effective dates and transition methods for comparable standards. This is important for both entities listed in the United States and in the European Union, since EU companies listed in the US can report in IFRS, and US companies listed in the EU can report in US GAAP.

However, while ESMA does see benefit in contemporaneous adoption of converged standards, given the uncertainty in the timing of convergence, let alone the adoption of IFRS in the US, this should not be a prerequisite for developing the optimal implementation plan for IFRSs going forward.

Question 8

Should the IASB permit different adoption dates and early adoption requirements for first-time adopters of IFRSs? Why, or why not? If yes, what should those different adoption requirements be, and why?

ESMA can understand the desire to permit different adoption dates for first-time users. First-time adoption requires much effort on the part of regulators, preparers and users. It would be inefficient for preparers and likely confusing for users if first time adopters had to adopt 'old' IFRS for a short period rather than applying revised standards from the date of IFRS adoption.