European Securities and Markets Authority

Date: 19 March 2012
ESMA/2012/203

EFRAG
Francoise Flores
Square de Meeus 35
1000 Brussels
Belgium

Adoption of IFRS 10 – *Consolidated Financial Statements*

Dear Ms Flores,

EFRAG published on 9 February 2012 on the request of the European Commission its opinion that IFRS 10 – *Consolidated Financial Statements*, IFRS 11 – *Joint Arrangements*, IFRS 12 – *Disclosure of Interests in Other Entities*, IAS 27 - *Separate Financial Statements* (2011) and IAS 28 – *Investment in Associates and Joint Ventures* (2011) comply with Union law and in particular, the requirements of Regulation 1606/2002 as regards understandability, relevance, reliability and comparability as well as the true and fair principles set out in the 4th Directive 78/660 and the 7th Directive 83/349.

However, in its draft letter to the European Commission covering its opinion EFRAG states not to support the effective date of 1 January 2013. It is EFRAG's opinion that entities would require more effort and therefore more time than 1 January 2013 to implement the standards. Further it notes that the IASB's projects *Investment Entities* and *Transition Guidance* could lead to 'unnecessary cost and uncertainty' for constituents. EFRAG's concerns are supported by field-testing activities and are predominantly concentrated in the banking sector.

ESMA will not comment on EFRAG's assessment whether the standards comply with the criteria provided in the Regulation. ESMA however strongly disagrees with EFRAG's suggestion to defer the mandatory effective date of the Standards to 1 January 2014.

ESMA believes that the standards allow sufficient time for implementation especially as the IASB has been working on this project for a long period. ESMA would agree with the IASB that the idea that banks would not know what activities they are controlling suggests that the reforms should be implemented rather earlier than later.

Like EFRAG we regret that the IASB could not issue a final standard on *Investment Entities* together with IFRS 10, IFRS 11 and IFRS 12. The impact of the standard could indeed be prevalent for the affected entities. The scope is however very narrow and will affect specific entities. In addition, we believe that the *Transition Guidance* clarifies the standard and is in essence interpreting the requirements in a way that is less burdensome for preparers.

Introducing a different effective date for issuers listed in the European Union would introduce a deviation from the IFRS literature as issued by the IASB and would have direct consequences for the European Union and the listed companies in an international context. For example, issuers that are listed in different markets might have to comply with two different sets of standards (i.e. IFRS issued by the IASB and IFRS as endorsed by the European Union).

ESMA also would like to note that IFRS 10 and IFRS 12 bring changes to financial reporting in response to the financial crisis. In particular, IFRS 12 introduces disclosure requirements that respond to concerns raised during the financial crises and forms part of the improvements to financial reporting that the G20 requested.

For all these reasons, ESMA does not believe that the concerns EFRAG set out in its opinion are justifying a deferral of the effective date. Also, given the interaction between the Standards, ESMA believes like EFRAG, that the mandatory effective date should be the same for all standards.

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

Yours sincerely,

Steven Maijoor
ESMA Chair

Julie Galbo
Chair ESMA Corporate Reporting Standing Committee

CC: Jonathan Faull, European Commission, Director General *Internal Market and Services*