DRAFT COMMENT LETTER

Comments should be submitted by 21 October 2010 to Commentletters@efrag.org

XX Month 2010

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

Dear Sir / Madam

Re: Exposure Draft *Removal of Fixed Dates for First-time Adopters – Proposed amendments to IFRS 1*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft *Removal of Fixed Dates for First-time Adopters – Proposed amendments to IFRS 1* ('the ED'). 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 by EFRAG in its capacity as advisor to the European Commission on endorsement of the definitive amendment in the European Union and European Economic Area.

EFRAG supports the proposed changes to IFRS 1 *First-time Adoption of International Financial Reporting Standard* ('IFRS 1'). Specifically, EFRAG:

(a) agrees that the fixed dates in IFRS 1 should be changed to the 'date of transition to IFRS' so that the exception is meaningful to entities that are planning to adopt IFRS in the future; and

(b) supports the rationale for amendment on the basis that the benefits would likely exceed the costs involved.

If you wish to discuss our comments further, please do not hesitate to contact Stuart Studsrud or me.

Yours sincerely,

Francoise Flores
EFRAG, Chairman

Appendix

Notes for EFRAG constituents

1 *IFRS 1* First-time Adoption of International Financial Reporting Standards *('IFRS 1') has a general principle that a reporting entity shall recognise all assets and liabilities whose recognition is required by IFRSs in its opening IFRS statement of financial position. However, IFRS 1 provides exceptions and exemptions to this general principle. Appendix B of IFRS 1, in particular, is intended to prohibit retrospective application of some aspects of IFRSs and Appendix C provides the option to apply certain exemptions from other IFRSs.*

2 *Appendix B, paragraph B2, of IFRS 1 provides an exception from full retrospective application of the derecognition requirements of financial assets and liabilities in IAS 39* Financial Instruments: Recognition and Measurement *('IAS 39'). The exception states that a first-time adopter of IFRS shall apply the derecognition requirements of IAS 39 prospectively for transactions that occur on or after 1 January 2004. It should be noted that the exception does not affect the application by first-time adopters of IAS 27: Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities.*

3 *Appendix B, paragraph B3, of IFRS 1, however, permits an option to retrospectively apply the derecognition requirements of IAS 39 from a date earlier than 1 January 2004, provided that the information needed to apply the derecognition requirements was obtained at the time of the initial accounting. This information requirement is intended to prevent unacceptable use of hindsight.*

4 *Appendix C, D20, of IFRS 1 allows a first-time adopter of IFRS to apply the requirements of paragraphs AG76 and AG76A of IAS 39 prospectively to transactions entered into after 25 October 2002 or 1 January 2004.*

5 *Paragraph AG76 of IAS 39 states that the best evidence of fair value of a financial instrument is the transaction price unless the fair value is evidenced using a valuation technique that uses observable market inputs only. In other words, paragraph AG76 allows for recognition of Day One gains and losses on initial recognition of a financial instrument if the inputs used to compute fair value are those that are observable. Alternatively, on initial recognition if an entity establishes fair value using a valuation technique whose inputs are not solely from observable inputs this will give rise to a Day One gain or loss that is required to be deferred.*

6 *The fixed dates in IFRS 1 are aligned with the transitional provisions that applied to existing IFRS reporting entities. Although not the primary objective of IFRS 1, this had the consequence that it achieved comparability between first-time adopters and entities that already applied IFRSs.*

7 *Many entities, particularly in jurisdictions that will be adopting IFRSs, will need to apply IFRS 1 in the near future. Hence, for those entities, the fixed dates in IFRS 1 result in exceptions and exemptions that are largely irrelevant because they only apply to transactions that occurred before 2004.*

8 *The IASB published the ED* Removal of Fixed Dates for First-time Adopters *on 27 August 2010, which proposes that the fixed dates in paragraphs B2 and D20 be changed to refer to the 'date of transition to IFRSs' because the cost of retrospective application of IFRSs would likely outweigh the benefits.*

9 *The effective date will be determined after exposure and earlier application is permitted.*

EFRAG's detailed responses

10 The objective of IFRS 1 *First-time Adoption of International Financial Reporting Standards* ('IFRS 1') is to ensure that an entity's *first IFRS financial statements* contain high quality information that is transparent for users and comparable over all periods presented, provides a suitable starting point for accounting in accordance with IFRSs and can be generated at a cost that does not exceed the benefits.

11 EFRAG agrees with the proposals and the rationale stated in the exposure draft, because the costs of reconstructing financial transactions at the date of IFRS transition are likely to be substantial for preparers and retrospective application may also be impracticable.

Questions to constituents

12 Do you agree or disagree with EFRAG's assessment of the amendments? If you disagree, please state your reasons.