STAFF PAPER

week commencing 23 January 2012

IASB Meeting

Project	**Consolidations, Joint Arrangements and Related Disclosures**		
Paper topic	Deferral of the effective date		
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Objective

1. This paper asks the Board if the effective date of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements* and IAS 28 *Interests in Associates and Joint Ventures* ('the new standards') should be deferred.

Background

2. In May 2011, the new standards were published with an effective date of 1 January 2013. Early adoption of the new requirements is permitted. The new standards must be applied as a package. However, entities are encouraged to provide the disclosures required by IFRS 12 earlier than 1 January 2013, but providing some of those disclosures does not compel an entity to early adopt the rest of IFRS 12 or the rest of the new standards.
3. In making their decision regarding the effective date, the Board thought that an effective date of 1 January 2013 would give an appropriate lead time between the publication of the new standards and their mandatory adoption. The Board considered the following factors in making their decision:
   (a) the time and effort that would be involved in implementing the new requirements, bearing in mind that these new requirements were

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finalised during a period of regulatory change and continuing economic uncertainty for many entities;

(b) the fact that the Board usually sets an effective date between six and eighteen months after issuing an IFRS; and

(c) the feedback that was received regarding the new standards from the responses for the Request for Views *Effective Date and Transition Methods*.

4. On 9 December 2011, the European Financial Reporting Advisory Group (EFRAG) sent a letter to the Board formally requesting the extension of the effective date to the later of:

(a) 1 January 2014, or

(b) 12 months after the amendments to IFRS 10 and the investment entities amendments have been published.

5. In its letter, EFRAG noted the following reasons for its requests:

(a) Shortly after the publication of the new standards, constituents expressed concern to EFRAG about the effective dates of the new standards, stating that the effective date would not give sufficient time for full implementation. They stated that some of these concerns arose from the final wording in the new standards, which could only be assessed upon publication. EFRAG asserts that these concerns were reinforced through a field test that EFRAG staff had performed of the requirements of the new standards.

(b) There are currently two exposure drafts of amendments to IFRS 10 that have not been finalised, *Amendments to the Transition Guidance in IFRS 10* and *Investment Entities.* EFRAG asserts that these exposure drafts introduce uncertainty into the requirements of IFRS 10 and could involve wasted effort if the changes introduced by the exposure drafts (namely the *Investment Entities* exposure draft) conflict with the current interpretation and implementation of IFRS 10.

6. The letter from EFRAG, and the public response from the Chairman of the IASB, is included in Appendix A.

7. The staff also note that other constituents have expressed similar sentiments. In addition, some comment letter respondents to the *Investment Entities* exposure draft are also requesting that the effective date of the new standards, along with the investment entities amendments, be deferred. The majority of these respondents have been European and have offered similar arguments to those of EFRAG to support their requests for a deferred effective date.

Interaction of current exposure drafts of amendments to IFRS 10 with the effective date of the new standards

8. As EFRAG discusses in their letter requesting a deferred effective date, there are currently two exposure drafts proposing amendments to IFRS 10. The staff think that the Board should consider how these exposure drafts should affect the effective date of the new standards.

9. The staff do not think that the *Amendments to the Transition Guidance in IFRS 10* exposure draft should be taken into consideration by the Board in determining whether or not to defer the effective date of the new standards, because the exposure draft proposes clarifications to the transition guidance that should make it easier for preparers to implement the standard. The staff expect that these amendments should be finalised in May 2012.

10. Regarding the *Investment Entities* exposure draft, the staff think that a risk in retaining the 1 January 2013 effective date is that entities could start to implement IFRS 10, only to have to change their implementation efforts once the amendments are finalised. Moreover, the investment entity amendments may have a later effective date than 1 January 2013, depending on the course of redeliberations.

11. However, the staff think that the effective date of the new standards should not necessarily depend on the investment entities project. The boards have yet to commence redeliberations on this project, and the amendments are not finalised. Moreover, if the amendments are finalised, they should actually result in cost saving because the consolidation of an investment entity's controlled investments would not be required. On the basis of the outreach performed to date, the staff do not predict that there will be much extra cost associated with implementing the amendments, because investment entities should already be managing their

investments on a fair value basis and will probably already be providing fair value information.

12. Finally, it is the staff's understanding that the constituents that are requesting a deferred effective date because of the investment entities project are from the insurance and financial services industries. These constituents (who would not be investment entities at the parent level) could incur costs if they begin to implement IFRS 10, determine they need to consolidate previously unconsolidated funds (that would be investment entities) and incur the costs associated with preparing consolidated information. These costs would be wasted if the investment entities amendments are finalised and the Board decides? to allow an investment entity subsidiary's fair value accounting to be retained at the parent level. However, the staff emphasise that those costs would be wasted only if the Board decides to allow the retention of fair value accounting at a non-investment entity parent level. This is not what was proposed in the *Investment Entities* exposure draft.

Staff analysis

13. The staff think that the Board have three possible approaches with regard to deferring the effective date of the new standards:

    (a) Approach A: keep the effective date for all of the new standards at 1 January 2013;

    (b) Approach B: keep the effective date for IFRS 12 at 1 January 2013, and defer the effective date for the four other standards to 1 January 2014; or

    (c) Approach C: defer the effective date for all of the new standards to 1 January 2014.

14. An analysis of the advantages and disadvantages of each alternative follows.

Approach A: keep the effective date for all of the new standards at 1 January 2013

15. An explanation of some of the advantages for retaining the 1 January 2013 date can be found in the Chairman's response to the EFRAG letter (the response and the original letter are reproduced in Appendix A).
16. As mentioned in the Chairman's response to EFRAG, the staff emphasise that IFRS 10 and IFRS 12 were published in response to the financial crisis and contain improvements to financial reporting that were requested by the G20 and Financial Stability Board. Moreover, IFRS 12 will result in increased convergence with US GAAP through some of its new disclosure requirements. The staff think that there is a significant advantage to retaining the effective date to ensure that these improvements are introduced to financial reporting as soon as possible. Retaining the effective date would also limit the potential for non-comparability that would result from having an extended period of optional application of the new standards.
17. In addition, while the project was in the deliberations stage, the project staff did not hear any strong requests for the effective date to be delayed beyond 1 January 2013. The nineteen months between the May 2011 publication date and January 2013 effective date represent a longer lead time than the IASB normally gives for new standards. A staff draft of IFRS 10 was available on the IFRS website for seven months before publication, and there were extensive fatal flaw reviews of IFRS 10 and IFRS 11. The staff also note that they know of other constituents who have changed their accounting systems and accounting policies in advance of the publication of the new standards in order to prepare for them. For example, some constituents changed from proportional consolidation to equity method accounting for their interests in joint ventures between 2008-2010 because of the changes to be introduced by IFRS 11.
18. However, given that there have been public requests for a deferral of the effective date of the new standards, a disadvantage of keeping the effective date at 1 January 2013 is that those constituents requesting a deferral will be forced to incur the costs associated with adopting the new standards at 1 January 2013. The staff do have sympathy for these constituents, especially for those in the banking, asset management and insurance industries, where the complexity and volume of

transactions is high and who are currently being subjected to significant regulatory changes.

19. As discussed in paragraph 10, another disadvantage of keeping the effective date at 1 January 2013 is that it increases the risk that an entity would begin implementation efforts for IFRS 10 only to change them once the investment entity amendments are finalised.

Approach B: keep the effective date for IFRS 12 at 1 January 2013, and defer the effective date for the four other standards to 1 January 2014

20. Under this approach, the effective date of IFRS 12 would be kept at 1 January 2013, but the effective date of the four other standards would be deferred to 1 January 2014. The advantage of this approach would be that the improved disclosures that will address financial crisis concerns and convergence would be adopted more quickly, but that preparers would have more time to adopt the other standards which, depending on the entity, may be more time-consuming to implement (namely IFRS 10 and IFRS 11).

21. This approach would also be partially consistent with the Board's decision to allow the stand-alone early adoption of parts of IFRS 12. The Board made this decision in order to encourage entities to improve the information provided to users of their financial statements as early as possible by applying the disclosure requirements in IFRS 12, especially the requirements regarding interests in structured entities. However, the Board deliberately allowed the early adoption of only *some of* the requirements of IFRS 12 instead of requiring IFRS 12 to be early adopted in its entirety. This is because the Board did not think that the early adoption of the entirety of IFRS 12 in isolation would be practical, given that all of the new standards are interrelated and were drafted to be applied as a package. IFRS 12 uses terminology that does not appear in IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Interests in Associates* or IAS 31 *Interests in Joint Ventures*. Moreover, the disclosures that are required by IFRS 12 are dependent on the assessments of control and joint control that are made in accordance with IFRS 10 and IFRS 11. In addition, other key requirements in those IFRSs could also affect the disclosures that an entity would include in its financial statements. For example, an entity first has to determine what type of

joint arrangements it has, in accordance with IFRS 11, before it can determine what disclosures it is required to make about those joint arrangements in accordance with IFRS 12.

22. Consequently, the disadvantage of this approach is that the new standards would not be applied as a package. The staff think that there could be significant practical difficulties involved in forcing IFRS 12 to be adopted earlier than the rest of the new standards. The staff note that EFRAG is also recommending that the new standards should be applied as a package.

Approach C: defer the effective date for all of the new standards to 1 January 2014

23. Under Approach C, the effective date of the new standards would be deferred to 1 January 2014. The advantage of this approach would be that it would respond to the request of EFRAG and other constituents to defer the effective date of the new standards and would offer more time to complete the implementation of the new standards.

24. The disadvantage of this approach is that the improvements to financial reporting brought about by the new standards will be delayed in their introduction into the marketplace. The staff note again that both IFRS 10 and IFRS 12 introduce improvements to financial reporting that are directly related to the financial crisis and that have been requested by G20 and the Financial Stability Board.

25. The staff also note that, under either Approach B or Approach C, a deferred effective date would have to be publicly exposed and undergo full due process before it could be finalised, which would require more time and increase uncertainty.

Staff recommendation

26. The staff recommend Approach A, which is that the effective date of the new standards remain at 1 January 2013. The staff acknowledge the concerns raised by EFRAG and other constituents, but think that a 19-month lag between the publication of the new standards and their effective date continues to be sufficient. In addition, the staff think that it is important for the financial crisis-related

improvements introduced by the new standards to be implemented as quickly as possible.

Staff recommendation
The staff recommend that the Board should confirm that the effective date of the new standards remain at 1 January 2013.