05 October 2011

Our ref: ICAEW Rep 97/11

Your ref: ED/2011/3

Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Hans

ED/2011/3 *Mandatory Effective Date of IFRS 9*

ICAEW is pleased to respond to your request for comments on *ED/2011/3 Mandatory Effective Date of IFRS 9.*

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

Eddy James FCA
Technical Manager
Financial Reporting Faculty

T +44 (0)20 7920 8701
E Eddy.James@icaew.com

The Institute of Chartered Accountants in England and Wales
Chartered Accountants' Hall
Moorgate Place LondonEC2R 6EAUK
icaew.com

T +44 (0)20 7920 8100
F +44 (0)20 7920 0547
DX 877 London/City

ICAEW REP 97/11

ED/2011/3 *MANDATORY EFFECTIVE DATE OF IFRS 9*

Memorandum of comment submitted in October 2011 by ICAEW, in response to the IASB's ED/2011/3 *Mandatory Effective Date of IFRS 9* published in August 2011.

Contents **Paragraph**

INTRODUCTION

1. ICAEW welcomes the opportunity to comment on *ED/2011/3 Mandatory Effective Date of IFRS 9* published by the International Accounting Standards Board (IASB).

WHO WE ARE

2. ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 136,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance, which has over 775,000 members worldwide.

3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. We ensure that these skills are constantly developed, recognised and valued.

MAJOR POINTS

4. We **strongly agree** that the mandatory effective date of IFRS 9 must be postponed.

5. In our response to the Request for Views on *Effective Dates and Transition Methods* we supported a 'big bang' approach, recommending a single mandatory adoption date for all the major standards under development ie, financial instruments, insurance contracts, leasing and revenue recognition. At the time we suggested that this effective date could be 2015, on the presumption that all of these standards would be issued by June 2011 as planned. However, we caveated this by recommending a minimum three year period between issuance and effective date for the major new standards.

6. All of these major projects are still on-going, with many now expected to be completed in 2012. Therefore, we now question whether 2015 is an achievable effective date. Rather than providing another date that may be subject to further change, we suggest that the Board instead make it clear that the mandatory adoption date for all of these standards will be three years after the completion of the final standard in the package. This recommendation is expanded upon in our response to question 1 below.

7. We **strongly disagree** with the proposal not to change the requirements in IFRS 9 for the restatement of comparative periods.

8. In the above response we also expressed a number of concerns about the transitional arrangements being proposed and we wish to reiterate those concerns, not only in relation to IFRS 9 but also in relation to the other major standards under development. We believe that there should be some relief from restating comparatives for all of these standards, irrespective of the timeline for adopting them. If the Board does require restatement of comparative periods we suggest that they specifically limit the number of comparative reporting periods that an entity is required to provide to a maximum of one comparative annual period.

9. Looking at IFRS 9 in particular, we believe it is not possible to create meaningful comparatives when applying the standard as currently drafted since the classification and fair value option designations must be done as at the date of adoption of the standard and financial instruments that are derecognised as at that date continue to be reported under IAS 39 in the comparative periods. Therefore, while it would be possible to adopt the standard on a retrospective basis by restating the opening balance sheet for the current period to the extent possible, trying to restate an earlier opening balance sheet would involve so much cost and effort and produce

such poor quality information as to not meet any reasonable cost benefit analysis. These concerns are explored further in our response to question 2 below.

RESPONSES TO SPECIFIC QUESTIONS

Question 1

The Board proposes to amend IFRS 9 (2009) and IFRS 9 (2010) so that entities would be required to apply them for annual periods beginning on or after 1 January 2015. Do you agree? Why or why not? If not,what alternative do you propose?

10. In our view it is important that entities should be allowed to apply the requirements of all phases of the project to replace IAS 39 at the same time. We also believe that these requirements should be introduced concurrently with the new insurance contracts, leasing and revenue recognition standards.

11. As these projects are still on-going, we strongly agree that the mandatory adoption date of IFRS 9 must be postponed. However, the postponement should not be seen as a signal to entities to stop preparatory work. Equally importantly, the postponement should not result in the IASB reducing its own efforts to complete all the phases of IFRS 9 expeditiously. Issuance of the final standard on a timely basis would allow entities who are able to benefit from early adoption of the improved financial instruments accounting. If it appears that IFRS 9 cannot be completed on a timely basis, it may become necessary for the IASB to consider making certain improvements to IAS 39, for example, to the presentation of fair value movements relating to own credit.

12. We also agree that a decision on the delay should be made as quickly as possible within the IASB's due process. Entities need to plan for the implementation of the new standard but they need to do so with some certainty as to the requirements. This delay should not result in entities stopping implementation work; rather they will be better able to develop approaches which will enable the adoption of all phases of the new standard in an efficient manner. Such certainty is also important for US foreign private issuers in the EU who would otherwise be in the position of having to plan to either prepare two sets of IFRS financial statements prior to EU endorsement – one in full compliance with IFRSs for the SEC, including being forced to adopt a partly completed version of IFRS 9, and another in compliance with IFRSs as endorsed by the EU – or prepare a US GAAP reconciliation.

13. However, as explained in our response to your Request for Views on *Effective Dates and Transition Methods*, we would suggest a minimum three year period between issuance and effective date for major new standards such as those for financial instruments, insurance contracts, leasing and revenue recognition. This length of time will be required for many entities' projects to determine the requirements of the new standards in terms of processes and systems and to design, develop and test these new systems, perform the restatements required and start reporting under the new processes and systems from the effective date.

14. Our views on restated comparatives for IFRS 9 are set out in our response to the next question, but as a more general point, the Board should not underestimate the time and effort involved in restating comparative periods for annual as well as interim reporting and for the whole of the reports, including primary statements, notes (such as IFRS 7 disclosures) and management commentary based on information in the financial statements. We note that shorter lead times may be feasible in some circumstances if restatement of prior periods is not required.

15. IFRS 9 is unique in that part of the standard has already been issued and therefore the IASB had to set a mandatory date which now must be subject to change. We suggest that it may be helpful for the IASB to follow a stated policy that IFRS 9 and the other on-going projects on the agenda will not be mandatory before three years after they are issued. Minor amendments and improvements can have a shorter mandatory date. With this policy in mind and in light of the possible time it will take to complete these on-going projects, we question whether a

mandatory adoption date of 1 January 2015 for IFRS 9 is realistic. The IASB may end up having to consider further delaying IFRS 9 at a later date. Either the IASB could put forward 1 January 2016 as the mandatory date or it may be preferable to just state that the mandatory date of IFRS 9 will be three years after the issuance of the final standard in the package. The aim should be to give the constituency as much certainty as possible for their planning assumptions.

16. While we believe that the new and revised standards that emerge from these projects should share a single mandatory adoption date, we also believe that early adoption should continue to be allowed. However, as explained in our response to your Request for Views on *Effective Dates and Transition Methods*, where applicable, we suggest that early adoption of the new standard on insurance contracts should only be allowed if IFRS 9 is also early adopted and vice versa.

Question 2

The Board proposes not to change the requirement in IFRS 9 for comparatives to be presented for entities that initially apply IFRS 9 for reporting periods beginning on or after 1 January 2012. Do you agree? Why or why not? If not, what alternative do you propose?

17. No, we strongly disagree. We raised some concerns about the proposed transition to IFRS 9 in our response to your Request for Views on *Effective Dates and Transition Methods*, particularly in relation to the practical difficulties that arise from the requirement to continue to apply IAS 39 to financial instruments that are derecognised prior to the date of initial application of IFRS 9 and the limited value to users of comparatives that consequently include financial assets that are classified and measured under a mix of IAS 39 and IFRS 9. We refer you to the content of that letter.

IFRS 9 comparative requirements

18. As drafted, IFRS 9 requires the business model to be determined as at the date of initial application and for fair value options and FVOCI elections to be made as at that date. IFRS 9 also requires IAS 39 to continue to be applied to financial assets that are derecognised as at the date of initial application. It is unlikely that the business models will change, so in most cases, this will not be a practical obstacle to preparing comparatives in a timely manner. In practice, to prepare comparatives fair value options and FVOCI elections would need to be made before the date of initial application. We question whether this would result in an inappropriate amount of hindsight being used in the elections, which cannot be avoided if entities are to buy themselves sufficient time to complete the restatement exercise before their first external reporting in the year of adoption.

19. However, it is the requirement not to restate financial assets which have been derecognised which could cause the most practical problems. There will often not be sufficient time to prepare restatements after the date of initial application and restatements prepared at an earlier date will require additional restatement for items which are derecognised up until the date of initial application. This may place undue strain on the ability of entities to complete and report restatements, even where they have properly planned and resourced the transition work.

20. We also note that there are likely to be practical difficulties in determining the business model for portfolios or entire business areas that have been disposed of before the date of transition. This is the issue that is attempting to be addressed by requiring that financial instruments that have been derecognised are not restated. However, we believe that the solution brings even greater practical difficulties and helps illustrate why restated comparatives are either not practically possible or can only be produced with what we feel is an inappropriate amount of hindsight.

21. More importantly, we do not believe that the benefits to users of these comparatives, which will not be representative of the results under either IFRS 9 or IAS 39, justify the substantial cost to preparers of producing them.

22. Even if the issue with derecognised financial instruments could be solved, requiring fully retrospective statements would not improve comparability as any final hedge accounting standard will only be permitted to be applied on a prospective basis, which will impact how entities apply the fair value option upon transition. In addition, it is acknowledged by the IASB that the information necessary to produce comparative financial statements for the new impairment standard will be difficult for users to obtain, which will result in a practical expedient. As a result, a preparer’s use of hedge accounting, impairment and the fair value option in the comparative periods will be geared along transition rules as opposed to providing information about the financial performance of the reporting entity over the period.

23. An alternative to full retrospective restatement of comparatives would be to require narrative disclosures explaining the impact of the transition from IAS 39 to IFRS 9. We would recommend that the Board undertakes further outreach activities to determine, given the limitations of restating comparatives, which types of disclosure would be of most assistance to users of the financial statements as they seek to understand the impact of adopting the new standard on the entity’s performance in the current period and on their results on an on-going basis.

Comparative requirements for 2015 standards

24. More generally and irrespective of the timeline for adopting all the new and proposed standards, we believe that it is imperative that the Board provide transition relief for preparers. The scope and magnitude of the proposed standards are so great that even the most sophisticated reporting systems will be stretched. To alleviate some of this burden, we suggest that restated comparative financial statements should not be required. Given the range of application approaches from fully retrospective to prospective, the operational complexity associated with restating prior periods and informational constraints that will result from the transition provisions, presentation of restated comparatives will not be meaningful. We believe that it will be confusing for prepares to explain which aspects of its historical financial statements are comparative and which are not. Further, limited retrospective adoption, while perhaps operationally easier, generally results in presentation of prior period financial statements that are not truly comparable, undermining the usefulness of such data.

25. If the Board does require restatement of comparative periods we suggest that they specifically limit the number of comparative reporting periods that an entity is required to provide to a maximum of one comparative annual periods which is defined as the required comparative period in the proposed amendment to IAS 1.The operational difficulties associated with a full retrospective adoption should not be underestimated and could be exacerbated by local regulatory reporting requirements. For example, certain entities which file their financial statements in the United States are required to provide four years of comparative financial information. Thus, even if an entity were to begin collecting reporting information from issuance of the new standards in 2011, it would not be able to do this exercise based on the final standards.

E Eddy.James@icaew.com

icaew.com