

January 31, 2011

Submitted electronically via [www.ifrs.org](http://www.ifrs.org)

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

Dear Sirs,

**Re: Effective Dates and Transition Methods**

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the International Accounting Standards Board's Request for Views on "Effective Dates and Transition Methods" dated October 2010.

The staff of the AcSB has consulted with a broad spectrum of Canadian preparers, advisors, regulators and the AcSB's User Advisory Council. The views expressed in this letter take into account comments and perspectives raised by these stakeholders as well as the views of AcSB members and staff. However, they do not necessarily represent a common view of the AcSB, its Committees or staff. Views of the AcSB are developed only through due process.

We commend the IASB for its work to develop improvements to the IFRSs on revenue, financial instruments, leases, insurance contracts, consolidation, joint arrangements, disclosures of unconsolidated entities, fair value measurement, defined benefit plans and presentation of other comprehensive income. Given the significant change that will result from these new standards, we applaud the IASB for taking the initiative to consult with stakeholders on how to establish the effective dates and transition methods of this group of new standards. We encourage the Board to conduct similar consultations in the future when multiple new standards are issued.

## **Developing high quality standards**

Within relatively short comment periods, stakeholders worked hard in 2010 to understand and develop thoughtful comments on multiple IASB exposure drafts. We think it is imperative that the IASB evaluate all requests for clarification and additional guidance, including implementation guidance. In developing these new standards, it is essential that the concepts are fully thought through. Testing the thoroughness of the guidance is critical to ensure that the standards are of high quality and can be consistently applied across jurisdictions.

Given the issues raised by stakeholders, the Board needs time to thoroughly consider and evaluate these issues, and appropriately challenge the original conclusions in each of the exposure drafts. Thus, we think there is a significant risk that the Board will not be able to develop high quality operational standards on these topics by June 30, 2011. Proceeding on this timeline is likely to produce inadequate solutions with the consequence that the Board will receive many requests to improve, clarify or interpret the standards shortly after they become effective.

We note that the G20 has called on the IASB and FASB to produce common high quality standards in several areas to respond to the global financial crisis. Ideally, the G20 wants these standards to be completed by the end of 2011. In our view, achievement of the critical objective of common high quality standards should not be jeopardized by attempting to meet arbitrary deadlines. Reconsidering issues in light of comments received is fundamental to established due process and to achieving the goal of high quality standards. We think the risk is low that the projects would not be completed on a timely basis simply because the Boards are responding to important issues identified by constituents.

As emphasized in our responses on each exposure draft on these topics, we urge the Boards not to rush to finalize the proposals by June 30, 2011. We strongly recommend that the IASB give the highest priority to taking the time to deliberate constituents' comments fully, resolve differences in approach with the FASB, and develop high quality global standards.

## **Challenge of responding**

Given the significant number of the new standards still under development and the uncertainty of when they will be issued, we find it difficult to develop definitive recommendations in response to the Request for Views. We do not know how the IASB will revise the exposure draft proposals and what will be proposed for portfolio hedging. We have not had time to understand the recently issued Exposure Drafts on “Hedge Accounting”, “Offsetting Financial Assets and Financial Liabilities” and “Financial Instruments: Impairment”. Thus, we find it challenging to provide informed views on this consultation when we are unable to evaluate, for example, the extent of work required to adopt the new standards and the possible interactions between the different standards. In our view, it is unrealistic to assume that the standards will be finalized or issued by June 30, 2011 substantially as proposed.

To provide useful input under these circumstances, we identified principles that can guide the IASB in setting the effective dates once the standards are finalized. Developing a set of implementation principles would provide a framework to set effective dates for these IFRSs, and also future IFRSs.

## **Setting effective dates**

Through our consultation with Canadian stakeholders, we found views were divided on what is the best approach. Financial statement users we spoke with believe that all nine of the proposed new standards are significant improvements to IFRSs; hence they would prefer the new standards be adopted as soon as possible, preferably together and on a full retrospective basis. However, users advise us that they also want high quality implementation of the standards which, they acknowledge, means preparers and auditors need sufficient time to achieve high quality implementation.

Preparers and auditors we consulted also expressed the view that these proposed standards are significant improvements to IFRSs and also want high quality implementation. Hence, their primary focus is to have sufficient time to prepare. However, their views varied depending on

their assessment of the extent of change or difficulties they will face in adopting each of the new standards. Support for a single effective date versus sequential dates depends on whether only one or two new standards are considered a challenge to implement rather than multiple standards being difficult to implement.

The following principles identify key factors to consider and provide guidance on how to balance conflicting views of stakeholders when setting effective dates for new standards:

1. Require standards that are relatively straightforward to be effective as soon as possible to provide financial users with improved financial information (e.g. standards that do not require retrospective restatement of transactions).
2. Provide preparers the time to adopt more complex standards that will result in a high quality implementation.
3. Determine the minimum time needed to adopt new standards properly by considering the subgroup of the economy that will need the most time to prepare. For example, the mandatory effective date for financial instruments should be based on the amount of time necessary for entities that have the most complex arrangements and conduct a significant volume of transactions in financial instruments to properly adopt the standard (i.e. financial institutions).
4. Set effective dates no later than four fiscal years from the date of issuance. If effective dates are too far removed from the date of issuance, the legitimacy of the economic arguments for the improved standard and the process itself are called into question.
5. Provide a minimum of two years of preparation for standards that require retroactive restatement of transactions (i.e. revising the recognition and measurement of items versus making presentation or other straightforward changes). In order to provide high quality comparative information, one year is needed to learn, train and prepare to apply the standard from the beginning of the year preceding the year in which information is first reported on the new basis (i.e., from the beginning of the comparative period).

6. Group standards to avoid or minimize consecutive changes to comparative information. Such an approach will also provide a year or years of no accounting changes to allow users to assimilate the effects of accounting changes better and to reduce the burden of having to change analytic models frequently.
7. Group together standards that are interrelated. In the AcSB's view, consolidation and joint arrangements are an example of such standards. Defined benefit plans and other comprehensive income are another example.
8. Group together standards that involve common activities to implement the new standards effectively and efficiently. Common activities include changing similar aspects of information systems, control procedures and other work processes, reviewing the same contracts, and the involvement of operational (rather than finance) staff.
9. Avoid underestimating the extent of work required because the financial statement effect of a new standard is not considered significant. For example, entities may need to reassess the facts and circumstances of transactions and arrangements and revise their documentation to affirm the limited effect of the new standard. Such work is essential from management control and audit perspectives.
10. Consider the extent of changes in the broader financial system and the effect of those changes on all stakeholders. Fatigue from constant change can impair the quality of the implementation by preparers and the ability of capital markets to adapt to new information.

If the new standards are issued by June 30, 2011 with no significant changes from the proposed standards as exposed, the following chart illustrates our groupings based on applying the above principles:

<b>Fiscal year standards should become effective for entities with a calendar year-end:</b>	<b>Project</b>
2013	Fair Value Measurement Post-employment Benefits - Defined Benefit Plans Presentation of Items in Other Comprehensive Income
2015	Consolidation Joint Arrangements Disclosures of Unconsolidated Entities Financial Instruments Leases Revenue Recognition Insurance Contracts

The Appendix to this letter includes additional details of our rationale for the principles and the allocation of new standards to the above two groups.

We strongly support the global application of converged standards and recommend that the IASB and FASB set the same effective dates on common standards. If the proposed effective dates for the new US standards do not provide sufficient preparation time, we think the IASB should adopt effective dates that reflect the needs of IFRS stakeholders.

### **Early adoption**

We support permitting early adoption because the need to provide more relevant information to users sooner outweighs concerns over a temporary reduction of comparability. The revised *Conceptual Framework for Financial Reporting* clearly states that relevance is a fundamental characteristic, while comparability is enhancing. Thus, entities should have the opportunity to provide the most relevant information to users sooner once standards are issued.

We also do not think permitting early adoption will significantly reduce comparability in practice because experience tells us that, generally, few entities early adopt new standards. Entities that early adopt standards tend to have a somewhat unique business reason (e.g. an initial public offering) and the resources to do so. In addition, some regulators often insist on all entities in a

regulated industry adopting new standards at the same time, most often on the mandatory effective date.

### **First-time adopters**

If early adoption is restricted or not permitted for entities already applying IFRSs, we recommend permitting first-time adopters to adopt these new standards early and avoid two rounds of changes from adopting the existing standards and then the revised standards within a short time period.

Even though Canadian public companies will adopt IFRSs for the first time in 2011, we are firmly of the view that it is not appropriate to permit recent first-time adopters to defer applying the new standards for a year or two if the Board adopts a timetable along the lines we have proposed above. Such a deferral would be inconsistent with the rationale for adopting IFRSs and enhancing the comparability of entities' financial reports in the global market.

With the adoption of IFRSs in Canada, and other changes within the broader financial reporting system, stakeholders are experiencing 'standards fatigue'. We understand that similar concerns are being expressed in other jurisdictions that have also recently adopted IFRSs. If a single effective date is selected for all the new standards, many preparers we spoke with are strongly of the view that the IASB should set a date no earlier than January 1, 2014. Therefore, we recommend that when a significant group of new standards is being adopted, entities adopting IFRSs for the first time in the same year that the new standards are effective, or the preceding two years, should be permitted to defer the adoption of the new standards by a year.

Our responses to the questions set out in the Request for Views are included in the Appendix.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me, Peter Martin, Director, Accounting Standards at +1 416 204-3276 (email [peter.martin@cica.ca](mailto:peter.martin@cica.ca)), Rebecca Villmann, Principal, Accounting Standards at +1 416 204-3464 or email [rebecca.villmann@cica.ca](mailto:rebecca.villmann@cica.ca)), or Kathryn Ingram, Principal, Accounting Standards at +1 416 204-3475 (e-mail [kathryn.ingram@cica.ca](mailto:kathryn.ingram@cica.ca)).

Yours truly,



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Chair,

Canadian Accounting Standards Board

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## **APPENDIX**

### **Comments of the Canadian Accounting Standards Board on the IASB's Request for Views on "Effective Dates and Transition Methods" dated October 2010**

#### **Question 1 – Background Information**

1. The Canadian Accounting Standards Board (AcSB) is the body responsible for setting accounting standards for Canadian private sector entities. Canadian publicly accountable enterprises (except for qualifying investment companies, segregated accounts of life insurance enterprises and entities with rate-regulated activities) are required to adopt IFRSs for annual periods beginning on or after January 1, 2011.
2. The AcSB's mission is to contribute to enhanced decision making by continuously improving the quality of financial and other information about organizational performance reported by Canadian entities. The AcSB's objectives include:
  - (a) developing standards that improve the quality of information reported by Canadian entities with due consideration of the costs and the benefits to preparers and users;
  - (b) facilitating access by Canadian enterprises to US and global capital markets by eliminating, or minimizing, GAAP differences within North America and internationally, as appropriate; and
  - (c) supporting our standard setting activities by actively encouraging implementation and providing timely guidance on emerging issues.
3. To fulfill its mission, the AcSB evaluates all proposals to improve IFRSs and provides recommendations to the IASB to assist in the development of high quality financial information after consultation with Canadian stakeholders. When appropriate, the AcSB develops proposals and conducts research for the IASB's consideration. The AcSB supports the global application of IFRSs and assists the IASB by holding routine consultations with Canadians to identify issues with the application of IFRSs that may need clarification or interpretation by the IASB or IFRS Interpretations Committee.

**Question 2 – Time and types of costs***Standards that require more time to adopt*

4. Through our consultations, Canadian stakeholders agreed that the new standards or amendments on fair value measurement, defined benefits plans and presentation of items in other comprehensive income were more straightforward and would not require a significant amount of time and effort to adopt. These new standards are straightforward to apply because many entities are already following the proposed methodologies for determining fair values and the new standards only require entities to book journal entries using already available information or make a minor presentation change.
5. As for the remaining topics, views on which new standards need more time to adopt varied depending on the industry an analyst follows, the type of activities an entity conducts or the size of an entity's operations. As well, some stakeholders distinguished the complexity of the new revenue recognition standard based on whether an entity's contracts were longer term in nature and the new consolidation standard based on whether an entity has arrangements involving special purpose entities.
6. Members of the AcSB's User Advisory Council expect that they will need more time to understand the new standards on revenue recognition, financial instruments, insurance contracts and consolidations and to revise their financial models. Revising their models will take a significant effort because they will need to revise the functionality, and restate comparatives data and key performance indicators for the multiple entities they report on, as well as each of those entities' competitors. Compared to preparers, the efforts expended by users tend to begin when the first financial reports are issued based on the new standards.
7. Compared to entities with national or global operations, entities with smaller or medium-sized operations expect that only one or two of the new standards will be a challenge to adopt and will require a significant amount of time. The new standards commonly

identified as needing more time to adopt include revenue recognition, leases and joint arrangements.

8. Entities with larger operations or that conduct more complex transactions expect that the new standards on revenue recognition, financial instruments, leases, insurance contracts, consolidation and joint arrangements will require significantly more time to adopt. These standards require more time because these entities will need to:
  - (a) conduct a contract by contract review, including reassessing the facts and circumstances of individual transactions and arrangements, and documenting the resulting assessments and conclusions;
  - (b) plan, test and implement changes to operating and financial reporting systems to track and process new data;
  - (c) apply these new standards retrospectively in some cases, including overcoming challenges due to lack of information in prior periods;
  - (d) amend contractual arrangements, such as covenants in financing agreements and compensation plans; and
  - (e) resolve interpretation issues internally and with their auditors.
9. Overall, many preparers of entities with smaller or medium-sized operations think that adopting these new standards will require a work effort equivalent to adopting IFRSs. Some preparers of entities with larger operations think that this second wave of change will require a more significant work effort than the initial adoption of IFRSs.
10. Canadian auditors we consulted indicate that the new standards will significantly increase their work effort because they will need to train their partners and staff in understanding the new standards and assessing the related auditing implications. Auditors will also need to work with clients to explain their understanding of the application issues associated with these new standards, and to resolve new areas of disagreement.

***Types of costs expect to incur***

11. Aside from the activities identified above that financial statement preparers, auditors and users will undertake to adopt the new standards, we think this question would be best answered by them directly. We note that, in Canada, changes to systems are made in an environment that includes regulatory requirements concerning internal controls and management reporting that expose senior management to a high degree of legal liability. Accordingly, accounting changes generally involve higher cost than might otherwise be the case.
12. To adopt these new standards into Canadian GAAP, the AcSB will complete its usual due process steps to adopt the new standards as issued by the IASB in both English and French. The Canadian Institute of Chartered Accountants will translate the new standards on behalf of the IFRS Foundation. To promote awareness of the new standards across all stakeholders groups, including academia, the AcSB and staff undertake a variety of communication efforts, including presenting at conferences and publishing articles.

**Question 3 – Effects on the Broader Financial Reporting System**

13. In Canada, financial statements prepared in accordance with IFRSs are used as a starting point for various regulatory and tax reporting purposes.
14. Regulators of capital markets, financial institutions, utilities, other public goods and services, and taxation authorities will need time to evaluate the effect of the new standards and revise their regulations and other requirements, as appropriate. Given their due process requirements for revising such requirements, we think these stakeholders would need a minimum of two years to prepare for the adoption of the new standards on financial instruments, insurance, revenue recognition and leases. They also need to factor into their processes the time that affected entities will need to implement their revised requirements.
15. From an academic perspective, the AcSB has undertaken efforts to encourage university and college instructors to teach the principles of IFRSs. Given that the new standards will

result in significant changes to the underlying accounting models for revenue recognition, leases and financial instruments, we think educators will need one to two years, depending on when the final standards are issued, before they will be able to teach others the new standards. They will need the time to learn the new standards, and to revise their textbooks, courses and other teaching materials.

16. Similarly, some time will be needed for practitioner training programs to be developed and presented to professional preparers, auditors and users of financial information. Boards of directors, audit committees and investor relations staffs also need some time to become familiar with the new requirements so that they may each fulfil their responsibilities knowledgeably.
17. We have had limited discussions with Canadian auditors, who indicate that these standards are unlikely to require changes to International Standards on Auditing or Canadian Auditing Standards that are based primarily on the international standards.

#### **Question 4 – Transition methods**

18. Financial statements users we consulted prefer full retrospective application of the new standards in order to be able to identify and evaluate changes in an entity's business rather than having to tease out the effects of changes in accounting methods over time and compensate for them in their analyses.
19. To provide users with comparable and improved financial information from which to make informed decisions, we also support retrospective application when practicable and when the effects of hindsight can be avoided. Thus, in general we support requiring entities to apply IFRSs retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
20. When considered in the context of a broad implementation plan for all nine of these standards, we have not identified any further implications for the transition methods as set out in each of the individual proposed standards, other than one. We note that the revenue

recognition standard is proposed to be adopted retrospectively and the leases standard is proposed to be adopted with limited retrospective application, which we discuss below.

21. However, several preparers we spoke with emphasized that the ‘impracticable’ test in IAS 8 has become a high hurdle that their auditors rarely or never accept that they have passed. We are concerned that, as a result of that current practice, entities would have to undertake heroic efforts and incur significant costs that will exceed the benefits of providing information on a retrospective basis, particularly when applying the new consolidation and revenue recognition standards.
22. For the consolidation standard, we question the merits of applying acquisition accounting from the date when the investor obtained control of a particular investee if that date is more than two years before the new standard was issued. Trying to obtain sufficient historical financial information that is IFRS compliant or determining the necessary adjustments to make information IFRS compliant can be a significant challenge. We recommend that the transition provision be revised to provide guidance and examples of circumstances in which full retrospective application is considered impracticable. A more reasonable application of the impracticable criterion would then allow entities to apply the requirements of IFRS 3 *Business Combinations* as of the date of initial application of the new consolidation standard.
23. For the revenue standard, we think that the costs of restating revenue recognized from long-term contracts that are completed in the year before the standard is applied (i.e. the comparative period) will exceed the benefits. If the effective date is within two years from the date the new standard is issued, the costs would be even higher because entities will not have been able to track the data needed to allocate the revenue across periods, both quarterly and annually. We recommend that the IASB provide sufficient lead time prior to the mandatory effective date of the new revenue recognition standard to allow entities to minimize these costs.

24. We are also concerned about an inconsistency in the transition methods for the new leases and revenue recognition standards and the effect it may have on lessors. The revenue recognition standard is to be applied retrospectively but the leases standard is to be applied on a limited retrospective basis. If a lessor leased assets and provided other services to a lessee under a single contract, the proposed transition methods may result in a scope conflict between the two new standards. Unlike the new revenue recognition standard, IAS 18 excludes “lease agreements” from its scope.
25. Though we support a limited or full retrospective application of the insurance contracts standards, we strongly disagree with the proposed transition requirements to exclude residual margins on policies in force at transition as explained in our response to that Exposure Draft. We are willing to assist the IASB develop requirements that can result in an unbiased and cost effective adoption of the new insurance contracts standard.
26. In our experience, developing transition provisions is challenging. Though some difficulties are hard to identify until entities begin to apply a new standard, transitional provisions should be developed at the exposure draft stage and evaluated by stakeholders. During the last year, there never seemed sufficient time for the IASB and stakeholders to properly consider transitional provisions (and consequential amendments, including those to IFRS 1 *First-time Adoption of International Financial Reporting Standards*). In all of our consultations on this Request for Views, we asked if the individually proposed transition methods should be modified when considered in the context of all of the proposals. Overall, stakeholders, including ourselves, have again not had the time to review the proposals and the possible interactions between new standards properly. We think further study of the provisions should be undertaken to minimize the need for subsequent revisions.
27. As explained in our response to Question 6, permitting early adoption could result in the earlier identification of transitional issues. In our response to Question 8, we also

recommend that the IASB review the exemptions and exceptions provided in IFRS 1 to confirm whether further changes are needed as a result of this group of new standards.

## **Question 5 - Effective dates for the new requirements**

### **Preferred Approach**

28. As some of the new standards are still under development and we are uncertain when they will be issued, we find it difficult to develop definitive recommendations. To be helpful under these circumstances, we have identified ten principles that can guide the IASB in setting the effective dates of the standards (see pages 4-5 of our letter).
29. Based on applying those principles, we prefer a two-step sequential approach for the following reasons. It would:
  - (a) Provide financial statement users with improved information by requiring relatively straightforward standards to be effective as soon as possible (principle 1).
  - (b) Result in a high quality implementation by providing preparers the time to adopt more complex standards (principles 2 and 9).
  - (c) Provide the time for preparers to apply complex standards retrospectively (i.e. standards that require revising the recognition and measurement of transactions) in order to provide more relevant and representationally faithful comparative information to users (principle 5).
  - (d) Group the standards to manage the work effort of preparers, financial statement users, academics and other stakeholders in an efficient and effective manner (principles 6 and 8).
  - (e) Enable users to absorb and understand accounting changes (principle 6).

- (f) Avoid years of continuous change if a few new standards were adopted each year for several years and thereby, minimize the number of times comparative financial information and analysts' financial models are restated (principle 6).
- (g) Help manage the extent of change and the effects of "standards fatigue" by spacing the effective dates to provide periods of relative calm (principle 10).
- (h) Avoid multiple systems changes and duplicative efforts, such as reviewing the same agreements and modifying various contractual arrangements more than once.
- (i) Allow more time for education and training efforts on complex standards.

### **Single date approach**

- 30. We recommend that the minimum time needed to adopt the new standards properly should be determined based on the subgroup of the economy that will need the most time to prepare. For example, the mandatory effective date for financial instruments should be based on the amount of time necessary for entities that have the most complex arrangements and conduct a significant volume of transactions in financial instruments to adopt the standard properly (i.e. financial institutions) (principle 3).
- 31. We think the IASB should provide a minimum of two years of preparation for standards that require retroactive application. In order to provide high quality comparative information, one year is needed to learn, evaluate and plan to apply the standard from the beginning of the year preceding the year in which information is first reported on the new basis (i.e., from the beginning of the comparative period) (principle 5). For new standards that require changes to operating and financial reporting systems, an additional year is needed to plan, implement and test the changes. Thus, we think a minimum of three years of preparation is needed for major new standards.

32. Based on the rationale explained above, if a single date approach is selected, we think that January 1, 2015 would be a reasonable effective date (i.e. adopt all the standards for annual periods beginning on or after January 1, 2015).
33. We would object to a January 1, 2014 or earlier effective date because preparers would have insufficient time to adopt the new standards in a high quality manner, and all stakeholders, including Canadians, are experiencing “standards fatigue”. For example, many Canadian entities trained and utilized their in-house staff to manage their transition to IFRSs. Given limited resources, many entities had to defer other value added tasks their finance staff normally performs. Preparers need time to respond to other business requirements.
34. At the other end of the spectrum, we would disagree with a January 1, 2016 or later effective date. We think that effective dates should be set no later than four fiscal years from the date of issuance. If effective dates are too far removed from the date of issuance, the legitimacy of the economic arguments for the improved standard and the process itself are called into question (principle 4).

### **Sequential date approach**

35. If the new standards are issued by June 30, 2011 with no significant changes from the proposed standards as exposed, we prefer a two-step sequential approach as illustrated in the following chart:

<b>Fiscal year standards should become effective for entities with a calendar year-end:</b>	<b>Project</b>
2013	Fair Value Measurement Post-employment Benefits - Defined Benefit Plans Presentation of Items in Other Comprehensive Income
2015	Consolidation Joint Arrangements Disclosures of Unconsolidated Entities Financial Instruments Leases Revenue Recognition Insurance Contracts

*2013 group*

36. We selected two groups because we do not agree with delaying the adoption of relatively straightforward new standards to dates when complex standards can be implemented. Such delays can result in financial statement users making suboptimal decisions. When new standards do not require a significant work effort to implement, we think preparers should be required to adopt those standards as soon as possible to provide users with improved financial information.
37. We think that the fair value measurement standard will be relatively straightforward to implement because many entities have revised their measurement methodologies based on the US standard and guidance issued by the IASB Expert Advisory Panel in order to develop supportable fair value measurements during the financial crisis.
38. In regard to the amendments to IAS 19 *Employee Benefits* for defined benefit plans, we think that eliminating the corridor method will reduce preparers' work effort while the improved presentation and disclosure requirements will add to it, but not significantly. Similarly, the amendment to require entities to present items in other comprehensive income in a single statement or consecutive statements will also require minimal effort. As the improved presentation requirements for defined benefit plans require remeasurement

components to be reported in other comprehensive income, we think these amendments should be grouped together as they are interrelated (principle 7).

*2015 group*

39. In the 2015 group, we think that the following standards are interrelated:
- (a) leases and revenue recognition;
  - (b) all the financial instruments chapters, i.e. the guidance on recognition and derecognition, classification and measurement (including impairment), hedging, and asset and liability off-setting;
  - (c) financial instruments and insurance contracts; and
  - (d) consolidation, joint arrangements and disclosures of unconsolidated entities.
40. The leases and revenue recognition standards are interrelated because both standards involve applying the control concept and in particular, assessing if a contract conveys control of an asset to another party. The leases standard also requires lessees and lessors to apply the revenue recognition standard to service components. From a practical perspective, these two standards will both require preparers to review the same contracts, involve operational staff to obtain and provide information, and make changes to information systems.
41. We think the new financial instruments standards should be adopted as a complete package to avoid multiple changes to how entities account for those instruments.
42. From a business perspective, the financial instruments and insurance contracts standards are interrelated for insurers. In some circumstances, insurers are able to use the classification requirements for some financial assets to select a measurement approach that is consistent with how insurance obligations are measured. Although the transitional

provisions in the proposed insurance standard permit entities to redesignate financial assets, some entities want to avoid two rounds of changes.

43. We think that the consolidation and joint arrangements standards are interrelated as both standards involve applying the control concept. For some arrangements entities may be evaluating whether one party controls the business or whether it is joint arrangement. From a practical perspective, the consolidation standard will require entities to assess all arrangements they have with other entities, including arrangements that they determine they do not control. Given the work effort to review those arrangements and identify the transactions that occur between the two parties, entities will have done some of the work needed to adopt the new standard on disclosures of unconsolidated entities. Thus, we think the disclosures of unconsolidated entities standard should also be adopted with the new consolidation standard.
44. Stakeholders we consulted prefer grouping the new standards on revenue recognition, leases, financial instruments and insurance contracts as a package because of their interrelationships and the extent of work needed to apply these standards.
45. Views of stakeholders varied as to whether the interrelated standards on consolidation, joint arrangements and disclosures of unconsolidated entities (the “second group”) should be part of the grouping set out in the preceding paragraph (the “first group”). Entities that think a low to moderate work effort is needed to apply the second group prefer that it not be included in the first group so as to split the overall work effort. Other entities would prefer that the second group be included in the first group because they need more time to reassess an extensive number of arrangements and revise their documentation. Based on providing the minimum time needed for a proper transition to the new standards by the subgroup of the economy that will need the most time to prepare, we recommend that the new standards on consolidation, joint arrangements and disclosures of unconsolidated entities be adopted with the first group (principle 3).

46. To provide financial statement users a year of no change, and preparers and advisors the overall time needed to adopt these complex standards, we think a year of no change should be provided between the groups. As previously explained, we recommend that preparers be provided three calendar years to adopt complex standards that are to be applied retrospectively. A January 1, 2015 effective date will enable preparers to:
- (a) learn, evaluate and plan their adoption strategy, including changes needed to information systems and work processes, in 2012;
  - (b) implement and test changes to information systems and work processes, and prepare initial analyses in 2013; and
  - (c) apply the standards from January 1, 2014 in order to prepare comparative information and to resolve implementation issues that may arise.

*Other considerations*

47. We disagree with a sequential approach that would result in multiple groupings. Requiring a series of new standards to be adopted year after year would result in constant change and contribute to “standards fatigue”. Importantly, financial statements users do not want consecutive changes to comparative information because they do not want to change their analytic models frequently (principle 6).
48. If alternate groupings are considered, we recommend that the fair value measurement standard be adopted before or at the same time as standards on financial instruments, revenue recognition, consolidation and joint arrangements to ensure that fair value measurements and allocations required by these standards are of high quality.
49. If the IASB finalizes the new IFRSs on financial statement presentation and financial instruments with characteristics of equity within the next year or two, the IASB should align their effective dates with other major standards. In particular, we think that the financial statement presentation standards should be grouped with the insurance contracts

standard so insurers will need to revise the reporting systems and financial statements only once (principle 8). The new financial instruments with characteristics of equity guidance should be grouped with the new financial instruments standard to recognize all reclassifications at one time. Otherwise the IASB should select effective dates that will avoid requiring significant changes in quick succession.

### **Other Approaches**

50. We did not identify another viable or preferable approach.
51. We did consider and reject approaches based on setting effective dates by industry, jurisdiction or size, given the objective of promoting global comparability. Although setting effective dates by size would allow large entities to pave the way for smaller entities, developing a size threshold for global application would be impracticable.

### **Question 6 – Early Adoption**

52. We think that early adoption should be permitted for all new standards because giving preparers the option to provide more relevant or representationally faithful information to users sooner outweighs concerns over a temporary reduction of comparability.
53. We note that any concerns about reduced comparability do not apply to the early adoption of the new insurance standard. Under IFRS 4 *Insurance Contracts* today, the financial statements of insurers tend to be comparable only within individual jurisdictions. Thus, early adoption of the new insurance standard would begin the process of making insurers' financial statements comparable on a global basis. Accordingly, we see no reason why early adoption of the new insurance standard should be prohibited or restricted.
54. Through our consultations, we learned that some Canadian entities are adopting the classification and measurement requirements for financial assets in IFRS 9 *Financial Instruments* early. Thus, early adoption of those IFRS requirements must continue to be permitted.

55. Some stakeholders point out that, if the mandatory effective date of a standard is, say, three calendar years after the standards are issued, allowing unlimited early adoption could create three years of non-comparable information. They think that such a lengthy period of potential non-comparability would be excessive. To minimize that concern, we considered whether there should be restrictions on early adoption, such as restrictions based on time or based on grouping with other interrelated new standards.

#### **Restriction based on time**

56. To reduce the period during which non-comparable information could occur, entities could be permitted to adopt a new standard early only one or two years before the mandatory effective date or after a specified date as contained in the early adoption requirements in IFRS 3 *Business Combinations* (2008). Restrictions based on time would make transition requirements complex, especially if the new standards are required to be adopted at two or more different dates.

#### **Restriction based on groupings**

57. To reduce the number of possible accounting frameworks entities could apply, the new standards might require early adoption in groupings. Although some new standards are interrelated for some entities, we think the standards are not necessarily interrelated for all entities. Thus, requiring two standards to be adopted together could discourage some entities from adopting the standards early. For example, entities could be required to adopt the revenue recognition and leases standards together in order to ensure that lessors report all income on the new bases. For entities that are not lessors, such a requirement could make early adoption of the revenue recognition standard unattractive given the work effort of adopting both standards.
58. Practically, we think preparers might early adopt standards that are interrelated in order to be efficient and effective. If preparers chose to adopt one new standard early and not others, we think that the disclosure requirements in IAS 8 *Accounting Policies, Changes in*

*Accounting Estimates and Errors* (paragraph 28) will ensure users are informed about the possible financial impacts of the other new IFRSs that will be adopted later.

### **Past experience**

59. Concerns that the comparability of financial information will decrease is based on the view that a significant number of preparers will adopt some of the new standards early. Past experience tells us that, generally, few entities adopt new standards early. Entities that adopt standards early tend to have a specific business reason (e.g. an initial public offering) and the resources to do so. In addition, some regulators have a practice of prohibiting early adoption and requiring a regulated industry to adopt new standards at the mandatory effective date or one specified earlier date.
60. On balance, we think that the potential benefits of early adoption and the likelihood of very limited take-up in practice outweigh the concerns about decreased comparability of financial reports.

### **Other benefits**

61. Entities that adopt early will help in identifying unanticipated transitional issues that the IASB can address before the mandatory effective date. As a result, the adoption progress would be smoother for the vast majority of entities that will apply the standards when required. As well, early adoption will result in the development of examples that later adopters can consider.

### **Managing consequential amendments**

62. Many of the new standards consequentially amend other existing IFRSs. Some existing IFRSs will be amended by several of the new standards. For example, IAS 40 *Investment Property* will be amended by the new standards on revenue recognition and leases. Given the extent of the consequential amendments and the challenges of applying them all, we encourage the IASB to provide sufficient time and clear guidance to assist preparers in

adopting each new standard in a high quality manner. For example, a summary table that identifies the consequential amendments made to existing IFRSs by each new standard would help preparers assess which new standards they should adopt together and reduce the risk of not applying all related amendments.

### **Question 7 – International convergence**

63. We strongly support the global application of converged standards and recommend that the IASB and FASB set the same effective dates and transition methods on common standards. The ability of financial statements users to compare financial information without having to adjust for different accounting approaches helps entities compete in North America and globally.
64. Compared to the IASB, the FASB has tended to require entities to adopt new standards and amendments shortly after issue. The IASB tends to provide a longer transition period in order that IFRS stakeholders in all jurisdictions have the time to translate, adopt in law, prepare and apply the new standards in a manner that will result in a quality application on a global basis. If the proposed effective dates for the new US standards do not provide sufficient preparation time, we think the IASB should adopt mandatory effective dates that reflect the needs of IFRS stakeholders.
65. In those circumstances, we strongly encourage the IASB to permit preparers to adopt the new standards early to allow IFRS preparers to apply the new standards in the same period as US preparers apply the equivalent new US standard.

### **Question 8 – First-time adopters**

66. As noted in our response to question 6, we support permitting all entities to adopt the new standards early. If early adoption is permitted for all entities, early adoption requirements for first-time adopters would not be necessary.

67. If existing preparers are restricted in their ability to adopt early, first-time adopters (i.e. entities and jurisdictions that will adopt IFRSs in 2012 or later) should be allowed to adopt the new standards early because requiring these entities to make two changes within a short period of time is onerous, costly and creates unnecessary confusion.
68. For many first-time adopters, the benefits of adopting new standards early can only be realized if they are able to adopt the new standards before they have to prepare their first set of financial statements in accordance with IAS 34 *Interim Financial Reporting*. For an entity required to issue quarterly financial statements, the new standards would need to be available ideally before their date of transition and no later than their date of adoption.
69. Given that many of the new standards are likely to be published later in 2011, there will be insufficient time for stakeholders adopting IFRSs in 2011 to adopt the new standards for 2011. As noted in our letter, we are firmly of the view that it is not appropriate to permit recent first-time adopters to defer applying the new standards for a year or two if the IASB adopts a timetable along the lines we have proposed. Such a deferral would be inconsistent with the rationale for adopting IFRSs. It would delay enhanced comparability of entities' reports in the global market and the benefits from applying a global set of standards.
70. As we noted in our cover letter, with the adoption of IFRSs in Canada, and other changes within the broader financial reporting system, stakeholders are experiencing 'standards fatigue'. We understand that similar concerns are being expressed in other jurisdictions that have also recently adopted IFRSs. If a single effective date is selected for all of the new standards, many preparers we spoke with are strongly of the view that the IASB should set a date no earlier than January 1, 2014. Therefore, we recommend that when a significant group of new standards is being adopted within such a short timeframe, for example, if all of these new standards were mandatorily effective for fiscal 2013, entities adopting IFRSs for the first time in that year, or the preceding two years, should be permitted to defer the adoption of the new standards by a year.

71. If early adoption is not provided, we note that individual jurisdictions that have not yet reached their mandatory date of adoption have the ability to defer that date.
72. In the past, needed amendments to IFRS 1 have often been overlooked when finalizing new standards. Therefore, we recommend that the IASB conduct a review of the exemptions and exceptions provided in IFRS 1 to confirm whether further changes are needed as a result of this group of new standards. The review should assess whether amendments to any existing exemptions and exceptions are necessary, and whether any additional exemptions and exceptions are needed.