Group Finance

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Dear Mr Hoogervorst

Exposure Draft on Mandatory Effective Date of IFRS 9

Lloyds Banking Group plc welcomes the opportunity to comment on the above Exposure Draft (ED).

We support the Board's decision to postpone the effective date of IFRS 9. However, in light of the delays to the publication of the impairment and hedging phases of the IAS 39 replacement project, we believe that instead of setting a fixed effective date for IFRS 9, the Board should provide a minimum of two years following the publication of all phases of IFRS 9. We also believe amendments should be made to the transitional arrangements to ensure that comparative information is relevant and decision-useful.

Our detailed comments are set out below in response to the specific questions in the ED.

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?

While we welcome the delay to the effective date of IFRS 9, we do not agree that an effective date should be stipulated at this time.

Although the implementation time will be dependent upon the nature of the changes proposed, as a major financial services group, the changes to standards dealing with financial instruments, insurance contracts and leases will have significant strategic and operational implications and are expected to require significant investment in systems and changes to business processes. Consequently, we believe that a period of at least two years between the publication of the final standards and the effective date will be required to implement these complex standards.

We recognise the challenges the Board face in producing a high quality financial instruments standard which is contributing to delays and ongoing uncertainty as to the expected timing of publication of the remaining phases of IFRS 9. Consequently, in light of this uncertainty and the EC's decision not to consider endorsing IFRS 9 until all phases have been completed, we believe that instead of a fixed effective date for IFRS 9, the Board should provide a minimum of two years following the publication of all phases of IFRS 9 and ensure that the effective date for IFRS 9, insurance contracts and leases is aligned.

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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?

We do not agree that the transitional arrangements should remain unchanged from those currently in IFRS 9.

The IFRS 9 transitional provisions for entities that initially apply IFRS 9 for reporting periods beginning after 1 January 2012 will result in mixed presentation, and in certain circumstances, mixed measurement of IFRS 9 and IAS 39 captions in comparative financial statements. We believe this impairs the usefulness of the comparative information. The transitional rules are also operationally complex, requiring an entity to track financial assets to determine those which have been derecognised during the period between the beginnings of the earliest comparative period presented and the date of initial application.

We believe that full retrospective treatment with restatement of comparative information is the optimal approach as we believe that this would aid comparability and lead to the preparation of decision-useful financial statements. However, we acknowledge the operational implications of mandating this approach. Consequently, we believe that the Board should also provide entities with the option of an alternative approach to transition by extending the existing IFRS 9 transition provisions afforded to preparers who adopted the standard before 1 January 2012. These transitional provisions are consistent with the relief provided by the Board on the first-time adoption of IFRS in 2005 when entities were not required to restate comparatives for IAS 32, IAS 39 and IFRS 4. This would enable preparers to tailor comparative disclosures made in unaudited transitional publications to aid users' understanding of the effect of the changes. In finalising amendments to the transitional provisions in IFRS 9, we would ask the Board to consider including an option that provides relief from the requirements of IAS 8 paragraph 28(f) in order to avoid the burden of maintaining a parallel accounting basis for financial assets in the year of adoption of IFRS 9.

Yours sincerely

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