ERNST & YOUNG

Ernst & Young Global Limited
Becket House
1 Lambeth Palace Road
London SE1 7EU

Tel: +44 [0]20 7980 0000
Fax: +44 [0]20 7980 0275
www.ey.com

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

21 October 2011

Dear Board Members

Invitation to comment – *Exposure Draft Mandatory Effective Date of IFRS 9 (ED/2011/3)*

The global organization of Ernst& Young is pleased to submit its comments on the above Exposure Draft (the ED).

We fully support the IASB's proposed amendment to defer the mandatory effective date of IFRS 9 *Financial Instruments* for the reasons set out in the basis for conclusions. This includes the ability to align the mandatory adoption of IFRS 9 with that of the forthcoming IFRS 4 *Insurance contracts* Phase II and so relieve insurers from having to face two rounds of changes in a short period of time. If the IFRS 4 Phase II (and the remaining phases of IFRS 9) are not completed by the middle of 2012, we would encourage the Board to make 1 January 2016 the mandatory effective date of both standards to enable adequate time for implementation.

We also fully support the IASB's decision to continue to permit earlier application of IFRS 9 (including impairment and hedge accounting once completed), particularly as it would allow first-time adopters (FTAs) to apply only one set of financial instrument requirements.

We support the IASB's proposal not to change the requirement in IFRS 9 for comparative figures to be presented for entities that initially apply IFRS 9 for reporting periods beginning on or after 1 January 2012. However, we have two major concerns:

The first concern stems from the transition requirement in IFRS 9 not to apply the standard to items that have already been derecognised at the date of initial application, which the Board has indicated it may reconsider. We understand that this requirement was intended to provide some transition relief to entities adopting IFRS 9 in 2009. However, we believe this requirement hinders those entities applying the standard from 2012 onwards. In particular:

i) entities are unable to prepare the comparative information prior to the beginning of the reporting period in which IFRS 9 is adopted; and
ii) comparative information must be prepared on a mixed basis, partially under IFRS 9 (for those financial instruments not derecognised before the DoIA) and partially under IAS 39 (for those financial instruments which have been derecognised prior to that date), reducing the value of the information provided.

For example, entities adopting the standard on 1 January 2015 will not be able to prepare comparative information for 2014 until after 1 January 2015 (the DoIA) since they will not know for which financial instruments comparative information must be restated until the DoIA has passed. A simple numerical example to illustrate the issue is attached as an appendix to this letter.

Our second concern is that the cost of restatement could be very significant to certain constituents who are required by their regulators to provide comparative information for more than one year and, in certain jurisdictions, a five year table of selected financial information.

To address these concerns we suggest the Board:

a) reconsiders the transition rules to require entities that do not adopt the standard before 2012, to use as the DoIA the beginning of the immediate preceding comparative period presented rather than the beginning of the year in which IFRS 9 is adopted. This would enhance comparability and allow entities to produce comparative figures in advance of the year end by applying IFRS 9 in parallel during the comparative period. This will also mean that existing IFRS preparers and FTAs will first apply the business model test for financial assets at the equivalent time, rather than at different times as currently required; and

b) only require retroactive application from the beginning of the required comparative period, as defined in proposed amended paragraph 10 (ea) of IAS 1 of the 2010-2012 Annual Improvements project (see Exposure Draft ED/2011/2, *Improvements to IFRS).* In this way, an entity that provides comparative information for periods beyond the required comparative period would continue to apply IAS 39 in those periods.

As a related issue, we would like to take the opportunity to encourage the Board to consider extending the existing option available in the IFRS for Small and Medium-sized Entities to apply the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* to IFRS 9 to enable such entities to apply the equivalent provisions of IFRS 9 .

Should you wish to discuss our comments further, please contact Tony Clifford on +44 (0) 20 7951 2250 or Leo van der Tas on +44 (0) 20 7951 3152.

Yours faithfully,

Ernst & Young

ERNST & YOUNG

Appendix - illustrative example:

As mentioned above, the transition requirement in IFRS 9[1] which prohibits the application of the standard to items that have already been derecognised at the date of initial application results in hindering those entities applying the standard from 2012 onwards. The following is a simple example to demonstrate this point:

Example

Assume that an entity holds only two identical financial assets classified as available for sale (AFS) .The entity plans to adopt IFRS 9 at 1 January 2015[2] (this is the date of initial application ('DoIA') as defined by paragraph 7.2.2 of IFRS 9).The entity, as required by its regulator, produces comparative figures for two years and therefore 1 January 2013 is the beginning of the earliest comparative period presented.

The details of the movements in balances of these two AFS assets are as follows:

- The assets were acquired on December 31, 2011 for CU 100 each.
- In 2012, the assets increase in value by CU10 each from CU 100 to CU 110, therefore resulting in the recognition of a CU 20 gain through AFS reserves in accumulated other comprehensive income (AOCI).
- In 2013, the assets increase in value by CU3 each to CU 113, therefore resulting in the recognition of a further CU 6 gain through AFS reserves in AOCI.
- At the beginning of 2014, the entity sells one asset for CU 113, therefore resulting in the recycling of the associated fair value change accumulated in OCI of CU 13 to profit and loss. The remaining asset increases in value in 2014 by CU2 to CU 115, therefore resulting in the recognition of a further CU 2 gain through AFS reserves in AOCI.
- On 1 January 2015 (DoIA), the remaining asset is classified at fair value through profit and loss (FVTPL) under IFRS 9, a change from the AFS classification under IAS 39.
- In 2015, the remaining asset increases in value by CU 1 to 116, resulting in the recognition of a further CU 1 gain through profit and loss.

Note:

- The impact of taxation is not included in the workings.

[1] IFRS 9 paragraph 7.2.1
[2] i.e. the new mandatory date, if finalized as proposed.

ERNST & YOUNG

SUMMARY OF FACTS:

(This is not a representation of the 2015 financial statement position, which is shown further below)

	31/12/15	01/01/15	31/12/14	31/12/13	31/12/12	31/12/11
Balance Sheet (B/S)						
Cash	113	113	113			
Available-for-Sale			115	226	220	200
Fair Value Through Profit & Loss	116	115				
Total	**229**	**228**	**228**	**226**	**220**	**200**
Capital	200	200	200	200	200	200
AFS Reserve - AOCI		0	15 =13+2	26 = 13+13	20 =10+10	
Cumulative Retained Earnings	29 =13 +13+2+1	28 = 13 + 13+2	13			
Total	**229**	**228**	**228**	**226**	**220**	**200**
Profit & Loss (P&L)	1		13 (recycled)			

Paragraph 7.2.1 of IFRS 9 prohibits the application of IFRS 9 to financial instruments that are derecognised prior to the entity's DoIA. To comply with this requirement, entities would need to:

1. determine assets where there is a change in measurement basis as at the DoIA.
2. analyse, after the fact, movements in the underlying balances in the comparative period(s) so that IFRS 9 is not applied to financial instruments derecognised prior to that date.
3. produce restated balance sheets as at the DoIA and for the comparative reporting period(s), distinguishing between assets that are still held at the DoIA and those that are derecognised prior to the DoIA. Entities would be unable to compile these restated financial statements until the DoIA has passed.

As shown further below, this requirement creates an operational burden and a lack of consistency in that entities must identify the specific instruments derecognised and then apply different accounting policies to similar instruments depending on the date of derecognition. The operational burden is greater for entities that produce more than one year of comparative figures.

The table below shows the financial position and income statement reflecting the derecognised asset only:

	31/12/15	31/12/14	31/12/13	01/01/13
Balance Sheet (B/S)				**Re-classification adjustment *not* made**
Cash	113	113		
Available-for-Sale		0	113	110
Fair Value Through Profit & Loss				
Total	**113**	**113**	**113**	**110**
Capital	100	100	100	100
AFS Reserve - AOCI (prior to sale)		13	13	10
AFS reserve reversal on disposal		-13		
Cumulative Retained Earnings	13	13		
Total	**113**	**113**	**113**	**110**
Profit & Loss (P&L)		**13**		

As shown above, the comparative figures have not been restated. That is, the B/S and P&L continue to be presented based on IAS 39.

The table below shows the financial position and income statement reflecting the asset which continues to be held at the DoIA (1/1/2015):

	31/12/15	31/12/14	31/12/13	01/01/13
Balance Sheet (B/S)				**Re-classification Adjustment**
Cash				
Available-for-Sale				-110 (re-classification)
Fair Value Through Profit & Loss	116	115	113	110
Total	**116**	**115**	**113**	**110**
Capital	100	100	100	100
AFS Reserve - AOCI				-10 (re-classification)
Cumulative Retained Earnings	16	15	13	10
Total	**116**	**115**	**113**	**110**
Profit & Loss (P&L)	**1**	**2**	**3**	

As shown above, the comparative figures have been restated for the asset which continues to be held at the DoIA. That is, the financial statements are presented under IFRS 9.

ERNST & YOUNG

The table below shows the combined financial statements reflecting the two assets:

	31/12/15	31/12/14	31/12/13	01/01/13
Balance Sheet (B/S)				Re-classification Adjustment
Cash	113	113		
Available-for-Sale			113	110
Fair Value Through Profit & Loss	116	115	113	110
Total	**229**	**228**	**226**	**220**
Capital	200	200	200	200
AFS Reserve - AOCI			13	10
Cumulative Retained Earnings	29	28	13	10
Total	**229**	**228**	**226**	**220**
Profit & Loss (P&L)	**1**	**15**	**3**	

Classification and measurement are based on IAS 39

As shown above, the comparative figures are prepared on a mixed basis, reducing the value of the information provided. This is evident in the P&L for 2014 which reflects a FV gain of CU 2 for the asset which continues to be held and CU 13 which represents the recycling of the FV change accumulated in OCI upon the disposal of the other financial asset.

Had the entity used as the DoIA the beginning of the earliest comparative period presented (i.e.1/1/2013), the financial statements reflecting the two assets would appear as follows:

	31/12/15	31/12/14	31/12/13	01/01/13
Balance Sheet (B/S)				Re-classification Adjustment
Cash	113	113		
Fair Value Through Profit & Loss	116	115	226	220
Total	**226**	**228**	**226**	**220**
Capital	200	200	200	200
Cumulative Retained Earnings	29	28	26	20
Total	**229**	**228**	**226**	**220**
Profit & Loss (P&L)	**1**	**2**	**6**	

As shown above, using the beginning of the earliest comparative period presented as the DoIA results in a meaningful comparative figures which are presented under the same classification and measurement model (IFRS 9's).

However, our recommendation to the Board is to consider requiring entities applying the standard from 2012 onwards, to use as the DoIA the beginning of the immediate preceding period presented and to require retroactive application only from the beginning of the required comparative period.