Our Ref.: C/FRSC

Sent electronically through email commentletters@ifrs.org

21 October 2011

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

Dear Sirs,

IASB Exposure Draft of *Mandatory Effective Date of IFRS 9*

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned Exposure Draft. Our responses to the questions raised in your Exposure Draft are set out in the Appendix for your consideration.

We support the deferral of the effective date of IFRS 9 for the following reasons:

- although IFRS 9 was issued in Hong Kong as HKFRS 9, this was done as a matter of course in accordance with our IFRS adoption policy, rather than as an expression of support for a piecemeal approach to replacing IAS 39;

- significant parts of IFRS 9 (e.g. impairment, general hedging and macro hedging) and the standard on insurance contracts remain to be completed;

- experience in practice has shown that there is no appetite from constituents in Hong Kong to adopt IFRS 9 in piecemeal and instead there is an increasing concern over the confusion that such an approach may cause; and

- we believe that a deferral until the above-mentioned projects are properly completed will be widely welcomed by Hong Kong constituents, especially given that the implementation focus in 2013 is on the consolidation, joint arrangements and fair value measurement standards.

However, we noted that the expected timeline for completing the remaining phases of the project to replace IAS 39 and the insurance contracts project is currently still unknown, and an appropriate amount of lead time is needed to perform proper field testing of the requirements of these standards. We also believe that it would be necessary to allow entities sufficient time to implement IFRS 9. In this respect, there should be a time interval of at least eighteen months between the date of issuance of the final standards for all phases of IFRS 9 and the insurance contracts project and the date of the beginning of the comparative period, as time will be required for many financial institutions and other entities to determine the requirements of the new standards and make the necessary changes to their processes and systems, which may include having to design, develop and test new systems. Hence, we are of the view that an appropriate deferred effective date (which has to be after 1 January 2015 based on the IASB latest published work plan) should be determined by the IASB which take into account these considerations.

In addition, we have also set out some other concerns/comments in the appendix relating to the transitional rules and disclosures of IFRS 9.

If you have any questions on our comments, please do not hesitate to contact me at ong@hkicpa.org.hk.

Yours faithfully,

Steve Ong, FCPA, FCA
Director, Standard Setting Department

SO/WC/jn

Encl.

Comments on IASB Exposure Draft of *Mandatory Effective Date of IFRS 9*

<u>Question 1</u>

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?

We agree with the Board's decision to postpone the effective date of IFRS 9 due to delays in the completion of the impairment and hedge accounting phases of the financial instruments project and the insurance contracts project.

Many constituents commented that the new standards on financial instruments and insurance contracts should be implemented simultaneously. We concur with this view and the deferral of the effective date of IFRS 9 to 1 January 2015 would only be appropriate if the new standards on financial instruments and insurance contracts can be completed before June 2012.

However, the timeline for completing these projects is still unknown and an appropriate amount of lead time is needed to do proper field testing of the requirements. We also believe that it would be necessary to allow entities sufficient time to implement IFRS 9. In this respect, there should be a time interval of at least eighteen months between the date of issuance of the final standards for all phases of IFRS 9 and the date of the beginning of the comparative period, as time will be required for many financial institutions and other entities to determine the requirements of the new standards and make the necessary changes to their processes and systems, which may include having to design, develop and test new systems. Hence, we are of the view that an appropriate deferred effective date (which has to be after 1 January 2015 based on the IASB latest published work plan) should be determined by the IASB which take into account these considerations.

<u>Question 2</u>

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 agree with the Board's proposal not to change the requirements in IFRS 9 for comparatives to be restated for entities that initially apply IFRS 9 for reporting periods beginning on or after 1 January 2012. It should be noted that we assume that this question relates only to the published parts of IFRS 9 (i.e. classification and measurement parts). We believe that the deferral will allow preparers sufficient time to prepare the comparatives.

Other comments

(1) Comparatives for financial assets derecognised prior to the date of initial application

Paragraph 7.2.1 of IFRS 9 states that entities should not apply the requirements to items that have already been derecognised at the date of initial application. Paragraph 7.2.2(b) states that the date of initial application is the beginning of the first reporting period in which the entity adopts IFRS 9, for entities applying IFRS 9 on or after 1 January 2011.

Based on the above paragraphs, the classification and measurement requirements in IFRS 9 cannot be applied to financial assets that did not exist at the date of initial application but existed for comparative information purpose.

For example, Entity A decided to adopt IFRS 9 for the first time for the year ending 31 December 2011. The date of initial application is therefore considered to be 1 January 2011 in accordance with paragraph 7.2.2. In this example, based on the above paragraphs, Entity A cannot apply the classification and measurement requirements in IFRS 9 to items that have already been derecognised at 1 January 2011. Entity A needs to continue to apply the classification and measurement requirements of IAS 39 to items that have not been derecognised at 1 January 2010 but have been derecognised in 2010. Specifically, a mix of financial assets accounted for under IFRS 9 and IAS 39 would appear on the primary financial statements and the related notes:

- financial assets that have not been derecognised at 1 January 2010 but are derecognised during the year ended 31 December 2010 are accounted for in accordance with IAS 39; and
- financial assets that have not been derecognised at 1 January 2011 are accounted for in accordance with IFRS 9.

We believe that such an accounting treatment will make the financial statements difficult for users to understand and would impair comparability. We suggest that the IASB should perform outreach with preparers to determine whether full retrospective restatement of comparatives would be more practical and meaningful. Another alternative would be to require the classification and measurement requirements of IFRS 9 to be applied as at the date of the beginning of the earliest comparative period presented.

(2) Transition disclosures requirements of IAS 8

There is a concern that the requirement for transitional disclosures on initial application of an IFRS as set out in IAS 8 paragraph 28 will have a significant effect on the implementation of IFRS 9. In particular, the requirement to show the effect of changes by line item for each financial statement for the current period and each prior period presented, to the extent practicable, requires parallel running of accounting systems. There is a concern that additional time and resources being required to obtain this information would outweigh the benefit generated from it. We recommend that the IASB to consider providing relief of adopting IFRS 9 by restricting the requirements of IAS 8 paragraph 28 to clauses (a) – (e).

(3) Early adoption of IFRS 9 (2009)

It appears to us that when the current version of IFRS 9 was issued in 2010, the former IFRS 9 (i.e. IFRS 9 (2009)) continues to be made available to those entities which had already early adopted the 2009 version, according to paragraph 7.3.2 of the ED. We are concerned that the wording in 7.3.2 may cause preparers which have not yet adopted IFRS 9 as at the date of issuance of the 2010 version to believe that they can still early adopt IFRS 9 (2009). We recommend that the IASB should amend the wording in 7.3.2 such that it is clear that entities cannot early adopt the earlier version of IFRS 9 once the later version was issued in 2010.

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