Australian Government

Australian Accounting Standards Board

Level 7, 600 Bourke Street
MELBOURNE VIC 3000
Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600
Facsimile: (03) 9617 7608

21 October 2011

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

Dear Hans

AASB comments on IASB Exposure Draft ED/2011/3 *Mandatory Date of IFRS 9*

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on the Exposure Draft ED/2011/3 *Mandatory Date of IFRS 9* (ED/2011/3). In formulating its comments, the AASB sought and considered the views of Australian constituents through comment letters and other consultation. The comment letters received are published on the AASB's website.

The AASB understands that it is imperative to complete the remaining phases of the project to replace IAS 39 *Financial Instruments: Recognition and Measurement* in a manner that thoroughly considers existing issues pertaining to the existing Standards. Accordingly, the AASB appreciates the IASB's efforts to continuously review its progress on the ongoing project to replace IAS 39 and the effects of the already issued phases of IFRS 9 *Financial Instruments*.

The AASB considers that, given the time-line for completing the remaining phases of the project to replace IAS 39 is still uncertain, the IASB should only determine the mandatory application date of the completed IFRS 9 once the project as a whole is near completion.

The AASB also considers that the IASB should consider providing sufficient time for entities to be able to present meaningful comparative information in the first year of application when setting the mandatory application date of IFRS 9.

On a slightly separate matter, the AASB was made aware of an existing application issue when applying the transition requirements of IFRS 9 (2010) and considers the IASB should clarify its intentions when it made those transition requirements.

The AASB noted there are four more phases to the completion of the project to replace IAS 39 and is concerned about the implications of multiple re-issuances of IFRS 9, particularly for comparability of financial reporting across entities. Accordingly, the AASB suggests that the IASB considers limiting the number of re-issuances of IFRS 9 and limiting the circumstances in which entities could early adopt an earlier version once a later version has been issued.

The AASB views, as summarised above, are explained in more detail in the attached Appendix.

If you have any queries regarding any matters in this submission, please contact me or Christina Ng (cng@aasb.gov.au) and Sue Lightfoot (slightfoot@aasb.gov.au).

Yours sincerely

K.M. Stevenson

Kevin M. Stevenson
Chairman and CEO

APPENDIX

1 Deferral of mandatory effective date of IFRS 9 (Question 1)

1.1 The AASB agrees with the IASB's rationale in paragraphs BC1 and BC2 of ED/2011/3 and is supportive of the IASB's proposal to defer the mandatory effective date of IFRS 9 beyond 1 January 2013, and not necessarily to 1 January 2015, seeing that the time line for completing the remaining phases of IFRS 9 is still uncertain. The AASB notes that to allow sufficient lead-time for implementing a completed IFRS 9, this date should be no earlier than 1 January 2015.

1.2 Consequently, the AASB considers that the IASB should determine the mandatory effective date of IFRS 9 only when the project as a whole is near completion.

2 Comparative restatement relief (Question 2)

2.1 The AASB acknowledges the IASB's rationale for not extending the relief for restating comparatives to annual reporting periods beginning on or after 1 January 2012.

2.2 The AASB considers that prior period information presented in financial statements should be comparative and, therefore prepared on a basis consistent with current period information. Accordingly, the IASB should set mandatory application date of IFRS 9 as a whole with a view to allowing sufficient time for entities to prepare at least one year of comparative prior period information.

3 Clarity on existing IFRS 9 transition requirements

3.1 The AASB notes paragraph 7.2.2 of IFRS 9 (2010) mentions the date of initial application of IFRS 9 as the date when an entity first applies the requirements of IFRS 9. In addition, paragraph 7.2.1 of IFRS 9 (2010) states it should not apply to items that have been derecognised on the date of initial application.

3.2 Given these requirements, the AASB has been made aware of some application issues when preparing comparative information before the date of initial application when items that have been derecognised before or on the date of initial application are not applicable under IFRS 9. The issue is such that, entities would need to prepare a restated balance sheet as at the beginning of the comparative period, to distinguish between assets that are still held at the date of initial application and assets that were derecognised before or on the date of initial application. This step is necessary to determine the opening retained earnings adjustment as at the beginning of the comparative period and the gain or loss during the comparative period.

3.3 Accordingly, the AASB considers the IASB should clarify its intentions in making these transition requirements stated in paragraphs 7.2.1 and 7.2.2 of IFRS 9 (2010).

4 General concerns about the phased approach to IFRS 9

4.1 The AASB considers that an issue with replacing IAS 39 on a piecemeal basis, is the cross-cutting matters between phases of the project that have been finalised and those that are underway. The AASB considers that, because entities are unable to predict the outcomes of the latter phases of IFRS 9 many prefer not to early adopt the earlier phases. For example, an entity's decision to measure its hybrid asset contracts at fair

APPENDIX

value or amortised cost may depend on the IASB's decisions made with regards to hedging requirements. Accordingly, many of the benefits of issuing some phases earlier than others are not widely taken up in practice.

4.2 The AASB also notes, when a new version of IFRS 9 is issued, the former IFRS 9 continues to be made available for early adoption. Currently, IFRS-compliant entities may be applying:

* IAS 39 as a whole;
* IFRS 9 (2009) plus the parts of IAS 39 not dealt with in IFRS 9 (2009), for example, the classification and measurement of financial liabilities, impairment and hedge accounting; or
* IFRS 9 (2010) plus the parts of IAS 39 not dealt with in IFRS 9 (2010), for example, impairment and hedge accounting;

which means financial reporting across IFRS-compliant entities is not comparable.

4.3 In addition, the AASB notes there are four more phases to the completion of the project to replace IAS 39 and is concerned about the implications of multiple re-issuances of IFRS 9, particularly for comparability of financial reporting across entities. Accordingly, the AASB recommends that the IASB considers limiting the number of re-issuances of IFRS 9. Preferably, IFRS 9 should be re-issued for the completion of the hedge accounting phase (as a whole) and the impairment phase.

4.4 The AASB recommends that, in future, the IASB refrains from releasing the new and revised IFRSs in phases because of the issues cited above regarding the lack of comparability of financial reporting.