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Mr Hans Hoogervorst
International Accounting Standards Board
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Our ref MT/288
Contact Mary Tokar

19 October 2011

Dear Mr Hoogervorst

Comment letter on Exposure Draft ED/2011/3 *Mandatory Effective Date of IFRS 9*

We appreciate the opportunity to comment on Exposure Draft ED/2011/3 *Mandatory Effective Date of IFRS 9* (the ED). We have consulted within the KPMG network in respect of this letter, which represents the views of the KPMG network.

Deferral of mandatory effective date

We support the Board's objective in deferring the mandatory effective date of IFRS 9 in conjunction with the Board's revised schedules for completion of the impairment and hedging phases and the new insurance contracts standard. We believe that a single mandatory effective date for IFRS 9 should be set to allow the new insurance contracts standard and all the chapters of IFRS 9 to be adopted at the same time.

However, because of the significant efforts required by many entities to adopt these standards, we believe that the lead time allowed for their implementation should be at least three years from their finalisation. Therefore, we believe that entities should not be required to apply them any earlier than for annual periods beginning on or after 1 January 2016. This proposal is based on the Board's current work plan. If there are further delays in the work plan, then we suggest that the Board reconsider again at that time the mandatory effective date of IFRS 9. If finalisation of the new insurance contracts standard is significantly delayed beyond the finalisation of the remaining chapters of IFRS 9, then it may instead be necessary to reconsider whether the mandatory effective date of the insurance contracts standard should be deferred beyond that of IFRS 9. Because of the linkage between IFRS 9 and the insurance projects, this would be an unwelcome outcome. We therefore encourage the Board to maintain a coordinated pace toward the timely completion of both projects.

Supersession of IFRS 9 (2009)

Although we agree with the Board's proposal that entities that already have early adopted IFRS 9 (2009), or intend to do so during 2012, should continue to be able to apply IFRS 9 (2009) rather than IFRS 9 (2010) until the mandatory effective date of IFRS 9 (2010), we do not believe that entities should be able to adopt the earlier version of the standard after 2012.

Transition requirements

We remain concerned about the effect of the prohibition in the transition requirements of IFRS 9 that precludes its application to financial instruments that are derecognised prior to the date of initial application. This prohibition both impairs comparability and increases the operational burden associated with preparing comparative information for later adopters of IFRS 9. We recommend that the Board consider permitting or requiring entities to apply IFRS 9 to all financial instruments in existence at the start of the first comparative period presented in the annual financial statements for the year in which IFRS 9 is adopted.

We recommend that the Board clarify the meaning of the term "reporting period" in the context of determining the date of initial application so as to forestall possible diversity in practice.

Appendix 1 to this letter contains our responses to the specific questions asked by the Board. Appendix 2 includes additional detailed comments on the ED.

Please contact Mary Tokar or Chris Spall on +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix 1

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?

We agree that the mandatory effective date should be deferred but the deferral should be to a later date than 1 January 2015 for reasons described in the following paragraph.

In our comment letter on the Board's Request for Views on *Effective Dates and Transition Methods*, we stated that the effective date of IFRS 9 should be accounting periods beginning on or after 1 January 2015 on the basis of the Board's stated plan at that time to complete the IAS 39 replacement and insurance contracts projects by June 2011. We agree that a single mandatory effective date for IFRS 9 should be set to allow the new insurance contracts standard and all the chapters of IFRS 9 to be adopted at the same time. The adoption of these standards will involve a large cost and effort for many entities, particularly financial institutions, as they will be required to amend their accounting policies, procedures and internal controls in respect of enormous numbers of often complex transactions. Because of the far-reaching effects in terms of systems and data requirements, we continue to believe that the lead time allowed for implementation of these standards should be at least three years from their finalisation. Given the revised schedules for completion of the impairment and hedging phases and the new insurance contracts standard, we therefore believe that the mandatory effective date of IFRS 9 should be delayed until at least 1 January 2016. If there are further delays in the work plan, then we suggest that the Board reconsider again at that time the mandatory effective date of IFRS 9. If finalisation of the new insurance contracts standard is significantly delayed beyond the finalisation of the remaining chapters of IFRS 9, then it may be necessary to reconsider whether the mandatory effective date of the new insurance contracts standard should be deferred beyond that of IFRS 9. Because of the linkage between IFRS 9 and the insurance projects, this would be an unwelcome outcome. We therefore encourage the Board to maintain a coordinated pace toward the timely completion of both projects.

The ED proposes amendment of paragraph 7.3.2 of IFRS 9 (2010) to extend an entity's ability to apply IFRS 9 (2009) instead of IFRS 9 (2010) from the current mandatory effective date of IFRS 9 (2010) through to the proposed revised mandatory effective date of IFRS 9 (2010). We agree that entities that already have early adopted IFRS 9 (2009), or intend to do so during 2012, should be able to apply IFRS 9 (2009) rather than IFRS 9 (2010) until such time as adoption of IFRS 9 (2010) is mandatory. However, the proposed amendment also would allow entities to early adopt IFRS 9 (2009) instead of IFRS 9 (2010) after 2012 and we disagree with extending the exception for early adoption after 2012. We have not identified any operational need to extend the exception for early adoption beyond 2012 and doing so would not be conducive either to ensuring comparability or to facilitating the adoption of the improvements requested by users that are contained in IFRS 9 (2010) compared to IFRS 9 (2009).

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?

Subject to the extension of the mandatory effective date discussed in Question 1 and the comments below, we agree with the Board's proposal not to extend the limited relief from restating comparatives.

The purpose of allowing limited relief from restating comparatives had been to enable entities to apply IFRS 9 soon after the first chapters were issued in 2009. We agree with the Board's proposal since there is no need to extend the relief beyond 2012 if the mandatory effective date is extended.

The transition requirements of IFRS 9 prohibit the application of its requirements to financial instruments that are derecognised prior to the date of initial application. This prohibition had also been intended to facilitate adoption of IFRS 9 soon after issuance of the first chapters in 2009. However, we believe that this prohibition both impairs comparability and increases the operational burden associated with preparing comparative information for later adopters of IFRS 9. For entities initially applying IFRS 9 from 2011 onwards, the date of initial application is required to be the beginning of the first reporting period in which IFRS 9 is adopted while, if the date of initial application is in 2012 or later, the entity is required to restate comparative information in accordance with the standard. The combination of these requirements leads to a situation in which an entity is unable to compile restated comparative information for a prior period until its date of initial application has passed since it is not until that time that it knows what instruments have been derecognised at the date of initial application. Furthermore, the requirement creates operational complexity and a lack of consistency in that an entity must identify the specific instruments derecognised and then apply different accounting policies in prior periods to similar instruments in a portfolio depending on the date of derecognition. The operational burden is even greater for entities that report more than one year of comparative information. We recommend that the Board reconsider permitting or requiring entities to apply IFRS 9 to all financial instruments in existence at the start of the first comparative period presented in the annual financial statements for the year in which IFRS 9 is adopted.

Appendix 2

Meaning of "reporting period" and determining the date of initial application

For entities initially applying IFRS 9 from 2011 onwards, the date of initial application is required to be the beginning of the first reporting period in which IFRS 9 is adopted.

In July 2011, the Board discussed whether the term "reporting period" can include an interim reporting period with a different beginning date to the annual reporting period. The discussion did not appear to reach a conclusion but indicated a risk of different interpretations in practice.

IAS 34 *Interim Financial Reporting* describes an interim period as a reporting period. This suggests that IFRS 9 may be adopted in an interim period and, if so, that the date of initial application is the beginning of the current interim period. However, selection of the start of the annual reporting period would be at least equally meaningful and would be consistent with the principle in IAS 34.28 that the frequency of an entity's reporting shall not affect the measurement of its annual results. It also would avoid different accounting policies being applied to different parts of the same annual period.

We also note that it is not clear how the date of initial application should be identified if an entity that prepares interim reports in conformity with IAS 34, but does not adopt IFRS 9 in those interim reports, elects to adopt IFRS 9 in its annual financial statements.

We believe that the Board should address these issues in order to avoid diversity in the application of IFRS 9 in practice.