Project **Cross-cutting issues**

Topic **Effective Dates**

Background

1. Next year we will be publishing two versions of what we call the Bound Volume, which I will refer to as compilations.

2. The first compilation will consolidate all of the Standards and Interpretations that an entity with an annual period beginning on 1 January 2010 would be required to apply if they do not adopt early any IFRSs with an effective date after 1 January 2010. Accordingly, for example, that compilation will have the IAS 39 requirements for classification and measurement of financial assets (but not IFRS 9).

3. The second compilation will consolidate all of the Standards and Interpretations that an entity with an annual period beginning on 1 January 2010 would be required to apply if they adopt early all IFRSs issued at 1 January 2010. Accordingly, for example, that compilation will have the IFRS 9 requirements for classification and measurement of financial assets (but not the parts of IAS 39 that IFRS 9 is replacing).

4. Developing the volumes has highlighted the advantages of having more consistent and coordinated effective dates and the consequences of permitting early adoption.[1] The purpose of this paper is to highlight some ways that we can

[1] The first compilation will be 'out of date' by the end of January because the amendments to IAS 32 for rights issues come into effect for entities with an annual reporting period beginning on 1 February 2010 or later.

make it easier for us to maintain IFRSs (and therefore also help those jurisdictions that have processes that pass IFRSs into law) and make it easier for entities to identify their reporting requirements.

5. I am recommending that the Board consider these factors when it sets in place transitional arrangements and sets the effective dates for a new requirement. The paper is also designed to remind the Board that effective dates and transition must not be considered in isolation—many new IFRS requirements have consequences for other IFRSs.

The work programme

6. Depending on how you define ‘major’, our work plan shows that we are scheduled to publish new IFRSs for about 10 major projects between 1 July 2010 and 30 June 2011. Some of those who currently use IFRSs have expressed some concerns about implementing many changes at the same time. Additionally, some jurisdictions will implement IFRS for the first time over the next few years. Those jurisdictions are concerned that their first-time adopters could be forced to change systems twice—on initial adoption and again when the new IFRSs become effective a short time later.

Effective dates and references to annual periods

7. Whenever we publish a new or amended Standard or interpretation, it is important that we provide those applying IFRSs with sufficient time to meet the new requirements. Obviously, selecting the effective date for new requirements is an important part of that process.

8. We have several different ways of specifying the effective date for a Standard or Interpretation. The most common expression is to state that the IFRS is *effective for annual periods beginning on or after [date]*. We have also, within the last 18 months, specified that an amendment to an IFRS is effective *for annual periods ending on or after [date]*.

9. It will be easier for us to maintain IFRSs and for entities to identify their reporting requirements if we limit the dates on which IFRSs change. The two dates that we have used more than any other are 1 January and 1 July.

10. I think that two dates per year are sufficient. Empirically, the range of annual period ending dates used by entities around the world covers the full range of the calendar. Although 31 December is a commonly used date in the US it is not used by all US listed entities. The US retail sector commonly uses 31 January. In New Zealand 11 different dates are used by its listed entities and 30 June and 31 March also feature prominently in other countries.

11. By selecting 1 January and 1 July as the effective dates I think it unlikely that we will be favouring, or disadvantaging, any particular jurisdiction. Some entities will have more time to prepare than others for particular requirements. For example, for an entity with a 31 December year end, an IFRS that is effective for annual periods beginning on or after 1 July 2011 will not be effective until 1 January 2012.

12. As a principle, I recommend that new requirements should become effective for annual periods *beginning* on or after a specified date (ie not for periods ending on a specified date) and that the dates specified should be limited to 1 January and 1 July.

13. There could be times when it is appropriate to make an exception. I think that this is most likely to happen when you decide that a new disclosure requirement is both necessary and urgent (and entities have the information). In such a case it could be justifiable to specify the first annual period *end* for which the disclosure should be made. However, even the reclassification amendment to IAS 39 could have achieved the same outcome with an effective date of 1 January 2009 with appropriate early adoption and transitional provisions.

Lead time

14. As the number of projects being completed increases we face a decision trade-off. Are we more likely to help those using IFRSs by:

(a) staggering effective dates so the we spread the system changes over the next four or five years; or

(b) delaying effective dates so as accumulate the changes so that they take effect in one or two hits?

15. On the basis of comments we have received on proposals we have published over the last five years, my assessment is that entities are more likely to favour having us accumulate the changes. On the other hand, investors and users would prefer to have the improvements in place sooner rather than later and they also prefer not to have parallel reporting (which early adoption creates). Of course, the longer the gap between the date an IFRS is issued and its effective date the longer we will have parallel reporting.

16. I think it would be inappropriate in a paper such as this to comment on what the transition period should be for individual projects. However, we do know that the compliance burden does vary. It might be that the insurance contracts Standard will require a longer lead time, as might revenue recognition. On the other hand, the fair value measurement Standard should reduce the compliance burden.

17. What we can, and should, do here is acknowledge the importance of considering the cumulative effect of new requirements. I am also asking you to indicate to those applying IFRSs what you think is an appropriate target minimum transition period.

18. We have several projects targeted for completion in the third quarter of 2010 (including consolidations, derecognition and fair value measurement). Consolidations and fair value measurement were due to be completed earlier, but we have delayed their completion to help achieve common requirements with the FASB. I think it is appropriate that projects completed in 2010 should have a mandatory effective date no earlier than 1 January 2012.

19. As I have emphasised, there could be good reasons to require earlier application. But I think it would be helpful to indicate that we are working with that effective date in mind. IFRS 9 has an effective date of 1 January 2013. I am assuming that the remaining phases of the replacement of IAS 39 will work towards that

date as well, although we have indicated that the accounting for the impairment of financial assets might need a longer lead-in time.

20. We have six major projects that we are aiming to complete in the first half of 2011. I think it is appropriate to plan for an effective date of no earlier than 1 January 2013. This should be the date we work towards as being the earliest effective date.

21. Setting such a target does not prevent us from having a later effective date, if those applying IFRSs would need additional time to meet the requirements. We can make those decisions as each project gets closer to completion.

22. Over the next few months I will work with the teams to develop a coordinated set of recommendations that will set out which projects should have effective dates aligned and which projects are likely to require a longer period of transition. The order of publication of new requirements will not dictate the order of effective dates. It could be that some requirements will need much longer lead times and might be effective after requirements published at a later date.

Interpretations and annual improvements

23. I also note that the IFRIC due process handbook states that the effective date is *normally* for periods begging three months after an interpretation is issued. Interpretations help eliminate poor accounting, which is why a shorter lead time is used. Similarly, we sometimes have shorter implementation times for annual improvements.

24. Nothing in this paper is designed to force longer lead times for interpretations, annual improvements or other projects with a relatively narrow scope.

25. However, I do not think the IFRIC or the Board are, or should be, bound to have a maximum of three months before an interpretation becomes effective. I think that the benefits of creating two change dates, by selecting the next 1 January or 1 July, outweigh the costs of delaying an interpretation (by a maximum of three months).

Early adoption

26. Some people have suggested that we should prohibit early adoption of IFRSs. They reason that, by doing so, the application of new requirements can be managed in stages.

27. The problem with this approach is that some jurisdictions might prefer to either require or permit early adoption. We think this could be the case for jurisdictions moving to IFRSs a year before a large number of IFRSs become effective. If early adoption is not permitted entities in such jurisdictions would face a second set of changes in the second year of application of IFRSs. By requiring early adoption, the jurisdiction could ensure that its entities faced only one major set of system and reporting changes.

28. I see little to be gained by considering *prohibiting* early adoption. However, it is possible that we could narrow the period over which early adoption is permitted by introducing a *not before* date. We have not considered such an approach formally but will do so as we develop these principles.

First time adopters

29. We are hearing concerns that in some cases first-time adopters will have more onerous requirements than those already applying IFRSs (mainly because of the comparative requirements). We have recently provided concessions to first-time adopters in relation to the IFRS 7 disclosure requirements.

30. We have been reviewing transitional provisions more generally and are developing principles to ensure there is more consistency in our new standards. Whatever the outcome of that review, we know that it is important that we assess the effect on first-time adopters of new requirements at the same time that we develop the transitional provisions and the effective date further.

31. I will ensure that each project includes such an assessment.

Recommendations

32. I am not asking the Board to make any technical decisions in relation to effective dates. Those decisions need to be made within the context of each project.

33. In developing our recommendations I want to ensure that we have consistent objectives and principles. To that end, I am asking you to indicate whether you support the principles outlined in this paper. If you do, we will ensure that staff papers are guided by these principles.

Summary of staff approach to setting effective dates
New requirements should become effective for annual periods beginning on or after a specified date (ie not for periods *ending* on a specified date); The dates specified should be limited to 1 January and 1 July; The assessment of the effective date for major projects completed in 2010 should be on the basis that it will not be earlier than 1 January 2012; and The assessment of the effective date for major projects completed in 2011 should be on the basis that it will not be earlier than 1 January 2013; In all cases these presumptions can be rebutted, but the staff would need to justify such a recommendation.