Project	**Effective Date and Transition Methods**
Topic	**Summary of Additional Outreach**

Introduction

1. In October 2010, the FASB and the IASB each published a document requesting views from stakeholders about the time and effort that will be involved in adopting several new standards and when those standards should be effective.

2. In March 2011, the staff presented a summary of the feedback received from FASB and IASB stakeholders. In view of the limited number of responses received from users and, for the FASB, from non-public entities, the boards directed the staff to undertake further outreach activities with these groups as well as with other stakeholders, such as third-party financial software developers and data aggregators that are sources of financial information for financial statement users. In addition, the boards directed the staff to analyse input received from investors and other users about what transitional disclosures might be needed to help users to understand the effects of the new requirements and to develop recommendations for consideration at a future meeting.

3. This paper outlines the results of that outreach and the additional analysis performed by staff. It is divided into the following sections:

   (a) Summary of software provider and data aggregator outreach

   (b) Summary of investor outreach

(c) Summary of non-public entity considerations

4. We note that most of the outreach was undertaken based on the boards' proposals in their EDs. We note that for many of these projects, eg leases, the boards have taken different decisions that could alleviate some of the concerns raised below. Additionally, this paper does not address transitional disclosures that may be needed to help users to understand the effects of the new requirements. If the boards request the staff to provide additional input on the topic of transitional disclosures, we will do so in a separate memorandum.

Summary of software provider and data aggregator outreach

Software provider comment letter summary

5. Many respondents to the boards' Discussion Paper/*Request for Views* were concerned about the level of effort and cost necessary to modify their internal and external information technology infrastructure in order to effectively implement the proposed standards. The following extract from IASB Agenda Paper 3A / FASB Memorandum 2, presented at the March 2011 board meeting, summarises the more prevalent concerns of those stakeholders:

> ***Internal and External Information Technology (IT) Infrastructure***
> *Efforts in this category include identifying software needs (including coordinating with third-party ERP vendors that will likely wait to develop new functionality until the proposed standards are finalized. One comment letter respondent believed this process may take 9 – 18 months or longer before release to customers); installing, configuring and testing software (including re-mapping of information systems to general ledger); and developing new internal and external reporting to reflect the new requirements (including data capture and analytics). Some respondents believe it will take two years to prepare, implement, and test these system changes. Additionally, companies may have to run dual systems in order to adopt certain standards (that is, leases and revenue recognition) on a retrospective basis.*

6. Many of those comments were from the perspective of financial statement preparers rather than from the perspective of enterprise resource planning (ERP) and software developers and providers directly. However, the IASB received a comment letter response from SAP (CL#59), a major provider of software products used by companies across the world to prepare financial statements under US GAAP or IFRS. In its comment letter to the IASB, SAP discussed the efforts that it would have to expend as a software vendor to comply with the new standards of the major MOU projects. The paragraphs that follow briefly summarise the feedback provided by SAP in that comment letter.

7. In general, SAP believes that its customers will expect SAP to provide standard solutions enabling them to implement the accounting required by the new standards. Those solutions will require consideration and time for them to be designed, developed and produced, because they will need to support multiple industries and processes. As a result, SAP believes that it will incur development expense (primarily employee-related expenses to focus on customisation or modification of existing solutions as well as for the development of new solutions). SAP will also have to train its consultants and external partner companies on the changed solutions so as to be able to provide services that reduce implementation efforts for its customers and to meet their software needs.

8. Specifically, SAP stated in its comment letter that, based on the boards' proposals in their EDs, it expects the following aspects of the major projects (financial instruments, insurance contracts, leases, and revenue recognition) to have the most pervasive effects upon their software development:

    (a) **Financial instruments**—*The changes to accounting and valuation of financial assets and liabilities is substantial from a solutions perspective requiring changes to current deployed software solutions. The new classification, impairment and hedging rules will require changes to the treasury solution, industry specific solutions (particularly banking and insurance) and certain accounting modules. These changes can be substantial, i.e. the transition from an incurred loss to an expected loss model requires structural system changes.*

(b) **Insurance contracts**—*The changes will require customization or modifications of the current industry solution to enable customer to comply with the proposed new standards avoiding manual efforts.*

(c) **Leases**—*The revised accounting requirements fundamentally change how leasing transactions are treated by lessees as well as lessors. As a result, any existing solution requires modifications. Furthermore, even though the lease standard is principle based and has the same accounting rules for equipment and real estate leases, this still triggers modifications in different areas of the underlying software. As a result, the modification or customization changes of existing solutions and the implementation by our customer will require lead time and create cost.*

(i) *Lessee Accounting – SAP solutions support the accounting for capital leases of equipment. In addition our software provides equipment tracking functionality for leased assets. Due to the considerable changes of the standard the existing solutions may require adjustments in order to meet the expectations of our customers when trying to efficiently comply with the proposed requirements.*

(ii) *Lessor Accounting – SAP currently offers a complete leasing solution "SAP Leasing" as an industry solution, with support for core leasing processes, financing and price management, quotation management, and asset management for lessors. Due to the expected substantial changes of the standard this solution may have to be amended reflecting the new IFRS requirements.*

(d) **Revenue recognition—***SAP's current portfolio supports revenue recognition for many industry scenarios in highly efficient and transparent ways. The new standard will impact SAP customers and force them to re-evaluate their contracts and re-shape their disclosures. Their implementation of SAP's solutions for revenue recognition will in general need to be adapted. Depending on the industry our customers might undergo significant costs and efforts to*

> *implement the new standard at SAP internally as well. The currently discussed approach will impact the current customization of the customer's software solutions. Due to the fact that this will affect the core business of many industries any required changes to the software or its customization will have a considerable impact. In order to advise our customers on the implementation of the planned changes, SAP will have to work with its customers to get an understanding of how the customers' processes would change due to the changes of the IFRS standard.*

9. Given these considerations, SAP favoured a single-date approach with a minimum of four years between the release of the new standards and their effective date. It believes this time frame will allow customers the proper amount of time during the normal course of their business operations to plan and execute any changes to their financial systems that are imposed by the new standards. Additionally, SAP commented that retrospective application of any new standard would mean significant burdens and costs to any entity that was affected. Consequently, SAP suggested that, at a minimum, the effective date for all standards for which retrospective application is proposed should be the same. In its view, having differing effective dates for standards that require retrospective application would make it almost impossible to have overlapping but not identical dual reporting periods. Lastly, SAP favoured the same effective dates for all entities with an early adoption option for first-time IFRS adopters.

Additional software provider outreach summary

10. Because the boards did not receive feedback from a broader representation of software providers, they requested that the staff perform additional outreach to gain a better understanding of the potential impacts that the proposed accounting in the major projects would have on the timing and costs associated with software development. In conducting this outreach, the staff spoke with a wide variety of software providers, ranging from major ERP providers to those that specialised in a particular industry (eg. the leasing industry) or customer

(eg privately-held or small business). The results of these discussions have been summarised in the paragraphs that follow.

11. Software providers expect to incur significant internal costs and efforts as a result of the newly issued standards, including costs associated with changes to software solutions, the development of guidance on how to customise existing solutions to meet the new requirements, and increased support to answer customer enquiries. These providers also expect additional complexity associated with updating software for industry- or country-specific requirements and for supporting multiple product versions in certain instances. In addition, several of these providers will need to work with other software partners to provide customers with specialised software.

12. Software providers varied in their answers to how much time they would need from the issue of a standard to update their software before delivering it to customers. They cited ranges of a few months to four years of development that would be necessary before the software's initial delivery to customers for testing. Furthermore, many indicated that they will need to wait until to the standards are finalised before they can begin working on software updates and that their answers depended on the accounting requirements of the final standards. For example, one provider noted that based on the accounting proposed in the exposure drafts, it expects to spend 30 months on software upgrades before releasing them to its customers. In addition, that provider said that an extra year would be necessary for each year of retrospective transition required by a standard. However, the same respondent said that this amount of time may not be necessary if the final standards are more closely aligned with existing accounting rules.

13. When asked about elements of the proposed guidance that make software updates more challenging, respondents frequently cited the leasing and revenue recognition projects, as well as the accounting for financial instruments project. In general, those respondents believe that standards that involve large numbers of transactions will require more significant software changes. For example, some respondents were concerned about identifying and reassessing the lease term, contingent rent estimation and reassessment, interim rent payments, and the derecognition aspects of the leasing project. Another

provider was concerned that building the performance obligation framework will require customers such as large networking, personal computers (PCs), and telecommunication companies to require industrial-strength volume-moving software.

14. Many of the software providers said that the boards' decision on a particular transition method will affect the time needed and the associated costs to update their software. For that reason, they tended to prefer a prospective transition, because they believe it would be easier for their customers to implement and would not require their customers to run parallel systems. They also believe that retrospective application may require significant manual effort, because the related software may not provide all of the tools to fully support retrospective application.

15. Software providers are also concerned that they would be required to provide software before the effective date of a new standard in order to allow for retrospective application or transition disclosures, because it would be easier to run parallel systems than to recast historical information. Furthermore, although several of the providers do have general ledger products that support accounting for the same transactions under multiple conventions, they were concerned about the costs and technical difficulties of managing parallel systems.

16. However, if retrospective application is required by the new standards, one software provider said that it would prefer full retrospective transition to be required rather than a modified or limited retrospective transition method. That provider believed that full retrospective application would allow systems to make adjustments from the inception of contracts and transactions, making the transition to the new standards more efficient for financial statement preparers. In addition, a number of the providers said they can prepare for either method of transition provided that companies have adequate notice and enough lead time to analyse and implement system requirements. Lastly, one software vendor said that regardless of the required method of transition, it expects that its customers will want software that can handle retrospective implementation for management and regulatory reporting reasons, so it will

probably need to develop the functionality irrespective of the boards' decision on transition.

17. The staff also asked software providers to present their views on how their software could support entities in preparing transitional disclosures that the boards may require in the years leading up to the effective dates of the new standards but before those standards become effective. Many providers were concerned that those types of transition disclosures would require either software updates or manual methods of estimation to be performed by preparers, which would increase the cost burden on those entities. Moreover, they are concerned that the cost and effort associated with a software update is similar to the requirements of early application and may be cause problems because companies may not have enough time to make the required systems changes. For example, one provider noted that it might issue a preliminary version of the product to allow its customers to capture the necessary data under the old standards and under the new standards for transitional disclosures. However, those vendors were concerned because of the fact that the software would not be fully functional, which could raise accuracy and auditability concerns and potentially lead to customer dissatisfaction.

18. Software providers were split on their preferences for a single-date or sequential adoption of the major MoU projects. Supporters of a single-date approach believe that it would allow for the implementation efforts to be combined into a single project management process, but they also acknowledged that such an approach could lead to implementation problems and additional strains on resources. Supporters of a sequential approach believe that a sequential approach would mitigate those factors; but, they acknowledged that it would also require multiple upgrades, which could lead to an increase in overall implementation costs. Other software providers did not have a preference for how the boards sequence the standards beyond requesting that the boards should establish the same effective date for the leases and revenue recognition projects, because of the interdependencies between those two projects.

19. Most of the companies were in agreement that the FASB and IASB should establish the same effective dates and transition methods for the major MoU

projects. They believe that doing so would allow companies to perform software upgrades at the same time, which is particularly important for their clients that report under both IFRS and US GAAP. In addition, the software providers stated that they would support a decision by the boards to permit early application, mainly because early adopters can help them to identify and fix software problems before the majority of their customers start using their software. However, these providers also said that they preferred a later effective date if early application is permitted, because they are concerned that customers will require software upgrades before those upgrades could be made ready, in order to adopt the standards as soon as possible.

Data aggregator discussion summary

20. The FASB staff contacted a major data aggregator that provides financial data and analysis to customers (including investors and executives) on the banking, insurance, financial services, real estate, energy and media and communications industries. The aggregator's information service collects, standardises and disseminates corporate, financial, market and mergers and acquisition data to those investment professionals.

21. The data aggregator uses internally developed US GAAP and IFRS templates to populate data in a standardised format. The data used is manually extracted and aggregated from publicly available sources. In doing so, the data aggregator does not make any estimates and only performs minor calculations if a number is missing (for example, it would calculate total liabilities if the total assets and total equity amounts are known but total liabilities are not provided).

22. Because the data aggregator uses publicly available information to populate its templates, it would prefer the boards to permit early application so that it can understand how its internal templates will need to be updated by examining the information provided in the financial statements by early adopters. In addition, the data aggregator would prefer the boards to sequence the standards by using a single-date approach and require the same effective dates and transition methods for both IASB and FASB constituents, because that will minimise the

costs that would be incurred if it had to update its data templates on multiple occasions.

Summary of investor outreach

23. After the March 2, 2011 joint board meeting where the boards received a summary of the comment letters received to date, the boards received comment letters from the Corporate Reporting Users' Forum (CRUF), the CFA Institute, and the Investors Technical Advisory Committee (ITAC). Those groups represent a wide variety of users, investors, and analysts. In each of their letters, those respondents commented that investors and other stakeholders are best served by high-quality standards and encouraged the boards to remain focused on that goal. In addition, they provided feedback on the potential impacts that the broad accounting issues in the major MoU projects may have on the user and investor community. Those respondents were mainly concerned that the proposed accounting changes would lead to discontinuity within financial statements, which would make their analysis more challenging. Specifically, those respondents provided feedback on the following topics:

    (a) ***The implementation approach (single-date versus sequential)***—Although there is broad agreement that investors should benefit from having the new information as quickly as possible, there is no consensus among respondents as to whether a single-date or sequential approach is more desirable. Supporters of a single-date approach believe that such an approach would be beneficial, because it would result in only one period of discontinuity in the financial statements. However, those supporters also acknowledge that it may be difficult for investors to isolate the effects of the changes that are attributable to each new financial report standard and that they might thereby fail to understand the true impacts and consequence of the changes. Conversely, the benefit of a sequential approach would be a clearer understanding of the impact of adopting individual standards;

but this approach would also result in multiple periods of discontinuity. One respondent expressed only qualified support for a single-date approach, by stating that it support assumed that the boards would complete the separate standards at about the same time. In addition, this respondent also suggested that if the completion dates were more than a year apart, the boards should require transition separately for each standard as they would in the normal course of issuing a new or updated standard. Furthermore, respondents that favored a sequential approach also supported grouping the revenue recognition and leasing projects together, because of the interdependencies between those projects.

(b) ***Transition methods***—All of the respondents support a fully retrospective transition because investors often analyse an entity's performance using trends, which are best depicted historically using a retrospective approach. They also cited comparability issues associated with the prospective and limited retrospective approaches, and did not favour allowing companies to choose their transition method. In particular, they stated that variations in the retrospective approach create confusion for users upon adoption and are heavily dependent upon the adoption date assumptions. For example, one respondent stated that the simplified retrospective approach proposed for the leasing standard would make future lessee interest expense and right-of-use asset amortisation heavily dependent on interest rate assumptions at the date of adoption—which could be substantially different from current interest rates or the assumptions at the inception of the lease.

As a result, they suggest a two- or three-year effective date delay to allow entities enough time to prepare comparable information to accommodate instances where a fully retrospective approach would be difficult to apply. One respondent indicated that a transition period of longer than four years would be excessive. Respondents believe that this delay would:

(i) give companies adequate time to run parallel systems in real time to avoid the problems of hindsight and bias,

(ii) allow companies to provide more effective and timely disclosures of the anticipated impact of each new standard,

(iii) help companies to identify and correct implementation issues and unforeseen consequences before a change in reporting, and

(iv) provide relief to countries that have recently transitioned to IFRS who would otherwise have to undergo two major changes in relatively quick succession.

(c) ***Early application***—The respondents are not in favour of early application. They believe that this would create a lack of comparability both in the short and in the long-term. The short-term lack of comparability will stem from different adoption times of standards by different entities. The long-term lack of comparability would stem from the assumptions made at adoption, which are dependent on current market conditions and on the fact that the effects of those assumptions would carry forward into future years. In addition, one respondent believed that the new standards should be effective as of the beginning of the year for US companies in order to achieve consistent application and implementation. However, another respondent is in favour of allowing early application for companies in countries that are in the process of transitioning to IFRS or for companies that want to bring their reporting into line with that which is already used by their core competitors in other countries.

(d) ***Transition disclosures***—The respondents are concerned about having adequate disclosures during the periods leading up to the effective dates, especially if the effective dates are delayed. They believe that the current guidance in Topic 250 *Accounting Changes and Error Corrections* in the *FASB Accounting Standards Codification*®. and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* needs to be enhanced, because it does not require robust disclosures of the anticipated impact of new standards. The respondents acknowledge that there is quantitative and qualitative guidance in the SEC's Staff Accounting Bulletin Topic 11M, *Disclosure of the Impact that Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant when Adopted in a Future Period*. This Accounting Bulletin summarises the guidance in Topic 250 and IAS 8 and requires some types of qualitative and quantitative disclosures as part of an entity's MDA report. However, those respondents request that the boards should include transition requirements for clear pro-forma quantitative and descriptive qualitative disclosures in the notes regarding the effects of the changes in the periods leading up to the actual effective dates. Those respondents believe that such disclosures will allow users to gradually develop an understanding regarding how the new standards will affect the entity's financial statements and will allow them to modify their analysis and their investment decision-making.

In addition, those respondents believe that such transitional disclosures are particularly important if the effective dates are later in order to allow entities to apply retrospective application. Those respondents believe that the goals of timely and robust disclosures are clear: upon transition, users should already understand the new accounting, have updated their forecasts and valuation models, and not be surprised at transition adjustments. Furthermore, they believe that if transition disclosures are well developed, there should not be a large market reaction upon transition.

(e) ***Converged effective dates and transition methods***—These respondents are in favour of the FASB and the IASB requiring the same transition methods and effective dates, because any differences would create challenging comparability issues between entities reporting under the two sets of standards. One respondent also believes that public and non-public entities should be subject to the same effective dates for the new standards. The issue of whether the FASB should allow a delay of the effective date for certain entities will be addressed later in this paper.

User outreach survey

24. In April 2011, the staff posted on the FASB and IASB websites a survey seeking further input from users about the effective date and transitional methods on the four joint projects—revenue recognition, leases, financial instruments and insurance contracts. The following paragraphs summarise the feedback received from the user survey and compare the results from the survey with the feedback provided in the comment letters responding to the Discussion Paper/*Request for Views*. In general, we note that the views expressed in the survey were consistent with the comment letter feedback.

25. The questions in the survey were mainly derived from the Request for Views or Discussion Paper. We also included other questions to address issues raised by board members at their joint meeting in March. The user survey focused on four broad issues.

Issues	**Paragraph number in this summary**
Costs/benefits • How important is it to have the same accounting policies for all periods presented? • Views on transition methods proposed by each project	28-31
Implementation approach • Preference for single-date vs sequential? • Early application permitted? • Same mandatory effective date and transition methods? • What types of disclosures would be useful in transition?	32-46
FASB-only: consideration of the effects of possible changes to standard-setting for non-public entities	47-48
IASB-only: additional considerations for first-time adopters of IFRSs	49-51

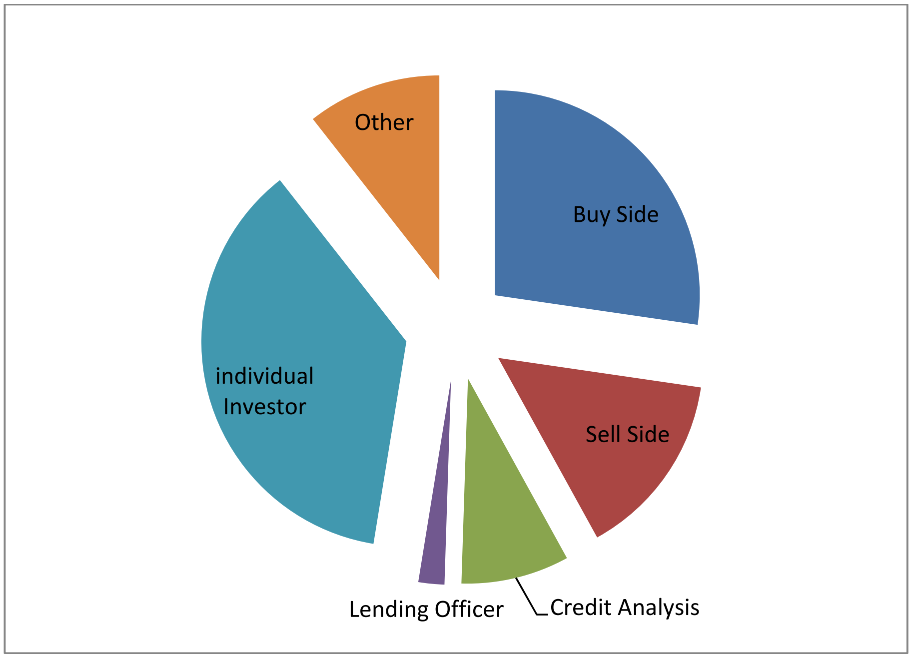
26. The survey was presented in a multiple-choice questionnaire style. The staff have attached the survey questions as Appendix A to this paper. Our objective was to ensure that responding to the survey would be easy, quick and user-friendly. We also included text boxes for respondents to provide the

reasons for their choices, but not many respondents provided reasons for their choices.

Who responded?

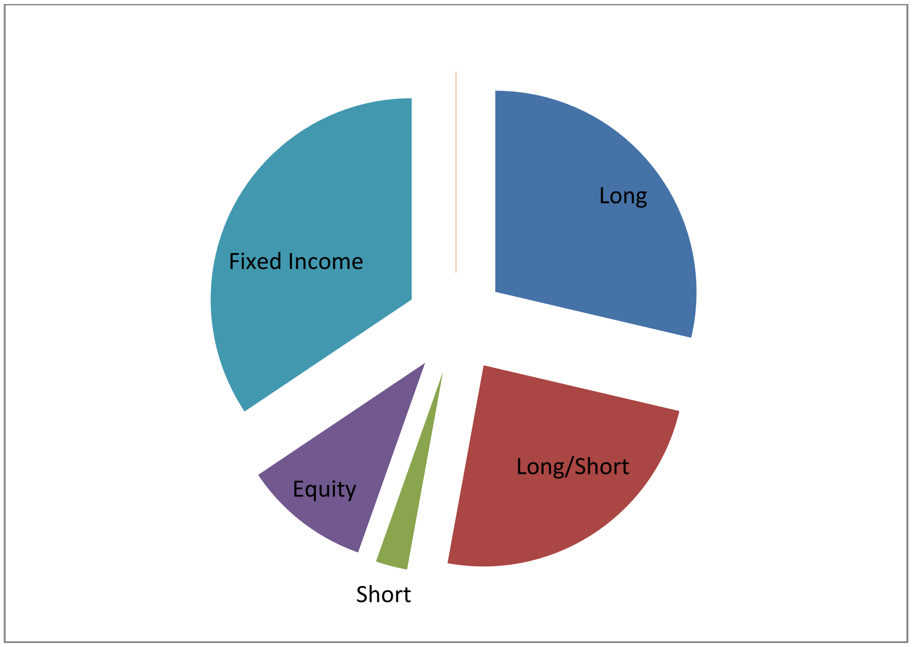
27. As of 31 May 2011, 209 users had responded to the survey[1]. A breakdown of the types of user can be found below. Because respondents were asked to pick all categories that apply to them, the total for all the categories would not necessarily give a total of 209.

(a) Type of investor

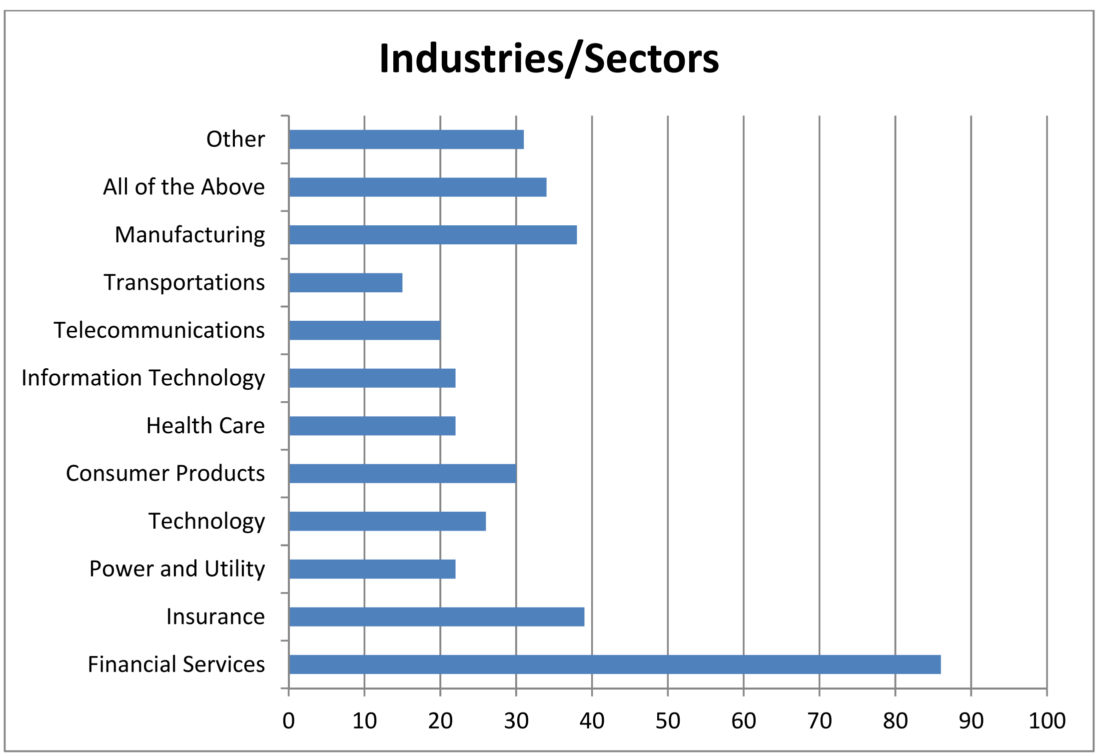


[1] Preparers and auditors also responded to the survey. We have not included their responses in this summary because the focus of the survey was to get additional feedback from users. Our definition of users is based on the boards' *Conceptual Framework*, and comprises existing and potential investors, lenders and other creditors.

(b) Investment perspective



(c) Industries or sectors in which they specialise (we note that the breakdown in the types of industries or sectors is broadly consistent with the industry breakdown received in the Discussion Paper/*Request for Views*).



Costs and benefits

Same accounting policies for all the periods presented

28. The survey asked how important it is that the financial information is prepared using the same accounting policies for all the accounting periods presented. A very high majority of respondents considered this to be very important.

Proposed transition methods

29. The survey asked whether users agreed with the following transition methods that were proposed in the exposure drafts:

    (a) revenue recognition : retrospective application

    (b) leases: limited retrospective application (the boards provide some relief for an entity from applying retrospectively)

    (c) financial instruments: retrospective application

    (d) insurance contracts: the IASB proposed limited retrospective application, while the FASB will consider this issue when it published an exposure draft (the FASB has so far only published a discussion paper on this project).

30. A majority of respondents agreed with the boards' proposals and favoured a retrospective transition for most of the proposed standards. Of those who agreed and provided a reason for their choice, comparability was the main reason in support of the boards' proposals. One respondent stated:

    > [X] cannot perform trend analysis if financial information is not presented in a comparable way. … prefer delaying the effective date so that companies can prepare parallel books under the old and new standards for a minimum of one year and disclose the information in detail in the footnotes every quarter prior to the official adoption date (not just a summary of the new rule plus a comment that the impact is expected to be material, or is uncertain). It would help understand the new rule and the impact over a typical revenue cycle and make projections about future.

31. Some respondents also thought that the boards should explore ways to potentially provide relief for entities that find it difficult to apply the new standards retrospectively. Some others simply disagreed with the boards' proposals. The most common reasons provided were:

    (a) A preference for prospective application of all standards because the benefits of applying retrospectively did not justify the costs. These respondents also noted they were more interested in operating results from the period of adoption as opposed to the impact that adoption will have on historic performance. Some were also concerned about the use of hindsight when an entity applies the new requirements retrospectively. (This view was consistent with some of the views expressed by respondents to the FASB's *Discussion Paper*.)

    (b) For projects such as leases and revenue recognition, some respondents suggested that the boards should permit full retrospective application, rather than a limited retrospective application, because they were concerned with the income statement effect on transition. (This view was consistent with the responses received to the Discussion Paper/*Request for Views*).

Implementation approach and timetable

32. The survey asked respondents whether the boards should have a single-date approach (all of the new standards would become effective as of the same date) or a sequential date approach (each new standard or an appropriate group of new standards would become effective as of different dates spanning a number of years).

33. Respondents were split in their views, which was consistent with the response received from the FASB's Discussion Paper. The respondents to the IASB's *Request for Views* preferred a single-date approach. Many of the respondents who supported a single-date approach supported an early application approach and viewed it as being similar to a sequential approach.

34. Those who supported a single-date approach did so for comparability reasons and to ensure that groups of standards that are interlinked would be applied at the same time. These views were consistent with some of the responses given in the Discussion Paper/*Request for Views*. For example, some respondents in the survey stated:

> Requiring multiple standard implement dates requires investors to make multiple updates to comparative analysis and multiple forecasts.
>
> Sequential changes fragment the policy framework, making point in time determination for users with periodic interest in issues very difficult; thereby reducing the value of Financial Statements to such users.

35. Users who supported a sequential date approach stated that a sequential approach would make it easier to trace the impact of each new standard. For example, one respondent stated:

> Some new standards will dramatically change the accounts, and a sequential change would allow to better assess each impact separately.

If sequential, how to group the standards?

36. Respondents were asked, if the boards decided to pursue a sequential approach, how new standards should be sequenced or grouped together. About three-quarters of respondents preferred that projects that are interlinked would have the same effective date. A common form of grouping was (a) revenue recognition and leases and (b) financial instruments and insurance. Grouping projects that are interlinked was also consistent with the response received to the Discussion Paper/*Request for Views*.

37. About a quarter of the respondents, mostly individual investors, preferred that each project should have a different effective date. Many respondents thought that the revenue recognition project should be the first standard to be effective. The other projects, in order of implementation dates, are financial instruments, leases and insurance contracts.

38. Most of these respondents did not provide the rationale behind their choices. However, for those who did, a common theme was the pervasive impact that the scope of those projects may have on transactions and key ratios. For

example, many respondents believe that because the revenue recognition standard could have the most pervasive effect, it might be preferable to order the revenue recognition standard first to allow entities and users to learn and understand the effects. Similarly, a user who focused on the financial services industry thought that the financial instruments standard should be effective first because it could have a bigger impact on other entities, and not just on the financial industry.

Early application allowed?

39. The survey asked if the boards should give entities the option to apply some or all of the new standards before their mandatory effective date. The survey also asked in what ways different implementation dates would enhance or impede their analysis. The numbers of respondents for and against early application for all standards were equal. A small minority of respondents thought that the boards should limit early application to those standards that are interlinked.

40. The reasons for the differing views were consistent with the response received in the Discussion Paper or *Request for Views*. Those who supported early application did so because they believe that:

    (a) entities needed to define their own time frame, because of all of the changes being implemented

    (b) adopters at the mandatory effective date might benefit from the lessons learnt from early application.

41. Those who did not support early application primarily cited non-comparability between entities as the main reason against early application.

Same effective dates and transition methods?

42. The survey asked whether the IASB and the FASB should require the same effective dates and transition methods for their comparable standards. Consistently with the response received on the Discussion Paper/*Request for Views*, a majority of respondents agreed that the boards should have the same

effective dates and transition methods for their comparable standards. Those who provided additional comments cited enhanced comparability as the primary benefit, noting that one of the objectives of a joint project was to ensure consistent requirements across different jurisdictions.

Disclosures for transitional analysis

43. Today, publicly-listed companies in the US are required to make disclosures in management's discussion and analysis (MDA) and IASB preparers are required to disclose in their financial statements information about the potential effect of newly issued accounting standards that the company has not yet adopted. The survey asked whether the information that entities disclose is sufficient for users' needs. If not, what information could be enhanced and how would that make the transitional analysis more effective or efficient? This question was not asked in the Discussion Paper/*Request for Views* document.

44. A small majority of respondents agreed that the information disclosed by companies was sufficient for their needs. Some respondents noted that the quality of the disclosures by entities varied. Furthermore, many users thought that the information provided by preparers during transition was not particularly helpful and stated their belief that many disclosures were boilerplate. As a result, those respondents suggested that the boards should consider the following:

    (a) An entity's schedule when the new standard is adopted

    (b) More quantitative estimates on the possible impact of the potential standards. However, those respondents did not specify what types of estimates would be useful.

    (c) Currently, most companies cite the rule, explain the rule and then say whether or not it will be material. It would be much more helpful for companies to discuss the rule in a way that relates to *their* business (eg discuss transactions, explain business mechanics), rather than explain the technicalities of the rule.

45. One respondent suggested that the boards could require more disclosure about a new standard's potential impact on an entity's financial statements, particularly by requiring more quantitative disclosures, but also recognised the concern that one could be essentially forcing them to early adopt the standard in the notes or footnotes.

46. The survey also asked respondents what type of disclosures would be useful if the boards issued a standard with a longer time lag until the mandatory effective date,. A summary of their suggestions are included in the table below.

Range of views	**What if mandatory effective date is in 2015? (Financial reports for year [x] leading up to the mandatory effective date)**			
	2011	**2012**	**2013**	**2014**
I	Fact that new standard may affect company and the expected application date	Fact that new standard may affect company and whether the standards could have a big impact on the financial statements	Fact that new standard may affect company and what the possible impact could be. If possible, include estimates of dollar impact.	Potential impact (as when IFRS was first adopted), because would need to do comparatives next year anyway
II	Fact that new standard may affect company and the expected application date	Initial estimated impact on balance sheet and income statement	Updated estimate of impact on balance sheet and income statement	Final estimated impact on balance sheet and income statement (illustrate impacts in tabular format)
III	High level information on the impact and some background on the standard	High level information on the impact and some background on the standard	Quantify the impact for this period. Eg give pro forma in notes	Quantify the impact for this period. Eg give pro forma in notes

Range of views	What if mandatory effective date is in 2015? (Financial reports for year [x] leading up to the mandatory effective date)			
	2011	**2012**	**2013**	**2014**
IV	Fact that new standard may affect company and the expected application date	Descriptive information on the company's plan when they will be adopting the standards	Descriptive information on implementation plan, nature of impact, etc.	Estimate of impact with any variables that would affect actual impact.
V	Fact that new standard may affect company and the expected application date	An indication of whether management expects the impact of the standard to be material, and the ways in which the standard might affect the company's future financial statements	Financial statement line items expected to be affected; an estimate, if available, of the potential impact or a statement that such an estimate is not yet available and why	Disclose the estimated impact of the standard on future financial statements, because, by this point, entities should have a better idea of the data in the systems.
VI	Impact on applications/IT	Impact on business model	Possible impact or pro forma to show financial impact	Possible impact on stock price

FASB-only: non-public entities

47. The survey also asked, with respect to the FASB's constituency, for which types of entities (e.g. private companies, not-for-profit organisations or smaller public companies) the FASB should consider providing a delayed effective date. In addition, the survey asked how long such a delay should be if it were granted by the Board. A third of those who responded suggested that private companies and not-for profit entities should have a delayed effective date. Respondents who agreed that these entities should be given a delayed effective date acknowledged that the preparers for these entities may need more time to comply with the new requirements. However, other respondents disagreed with a blanket delay of the effective date for those entities because such entities may be publicly accountable.

48. The survey then asked how long such a delay should be. The choices given were—1 year, 2 years, 3 years, 4 years and 5 or more years. A majority of respondents preferred that the Board should provide a one- to two-year delay for non-public entities, because they believed this would give such entities adequate time to comply with the new requirements. Furthermore, these respondents also noted that these companies could take advantage of the lessons learnt from publicly-listed entities.

IASB only: first-time adoption of IFRSs

49. The survey noted that some companies or jurisdictions will apply the requirements in IFRSs for the first time. Consequently, should the IASB give those entities an option to apply IFRSs before their mandatory effective date? About two-thirds of respondents agreed that the IASB should give first-time adopters an option to early adopt IFRSs. A respondent noted that

> Yes, but only if they provide before and after disclosure to facilitate comparison with companies using existing standards.

50. However, a third of respondents disagreed because they thought that early application would impair comparability.

> We prefer comparability among the financial statements of all peer companies. While we understand this may be burdensome to preparers, comparability allows us to more effectively analyze companies within a market sector, particularly in instances where adoption dates are extended over several years.

51. The response to this question was slightly different the response that was received to the IASB's *Request for Views*, where about three-quarters of the respondents agreed that the Board should allow for early application of IFRSs for first-time adopters. This issue will be explored further in a separate memorandum.

Summary of non-public entity considerations

52. In addition to the information provided by users in the survey, as discussed in the previous paragraphs, the FASB staff believe that there is additional information that the FASB Board should consider with respect to setting the effective dates and transition methods for non-public entities, which include

private companies and not-for-profit organisations. This information has been obtained from a variety of sources, including the FASB's Private Company Financial Reporting Committee (PCFRC) and the Private Company Resource Group, which is assisting the FASB staff in developing a differential framework for private company accounting standards.

53. On 6 May 2011, members of the PCFRC said that they favoured a 'big bang' adoption of accounting standards (specifically, the revenue recognition, leasing, and financial instruments projects) as opposed to a more sequential approach. Furthermore, they stated that the 'big bang' adoption with sufficient lead time would be preferable for preparers and users, particularly for lenders, who will need sufficient time for education efforts and to renegotiate debt covenant agreements. In addition, they stated that software providers and also academics (who will need to update textbooks) would need sufficient lead time to comply with a 'big bang' adoption.

54. Some preparers and users believe that the Board should evaluate potential differences in transition guidance between non-public entities and public entities. Some believe that, in certain cases, the cost for non-public entities to adopt new accounting standards on a full retrospective basis will exceed the benefit to their users. Some non-public entity preparers contend that, given the limited distribution of non-public entity financial statements and the level of access to management that exists, the benefits of achieving comparability and evaluating trends from applying a full retrospective adoption do not justify the costs incurred to evaluate the prior-year effect. Some non-public entity preparers also cite concerns about their level of accounting resources and the costs of system modifications, independent accountants, and other external professionals when evaluating the effect of applying transition guidance.

55. Some preparers of non-public entity financial statements state that they believe that many of their users, such as existing equity investors, vendors, lessors and customers are not as concerned with the effect on the prior period financial statements, because they are more interested in current year results and are not focused on non-cash adjustments. However, some users, and particularly lenders to non-public entities, state that it is imperative that they should have access to at least two years of comparative financial information, because they

need this input for their lending assessment models and in making economic decisions. However, some of these lenders indicated that they would be willing to accept a prospective application because of cost-benefit concerns if (a) the effect on comparability was not significant or (b) upon request, management directly provides them with comparable unaudited financial information.

56. While the FASB staff believe that these observations are important considerations, the staff are aware of the draft white paper on private company financial reporting and the efforts that are under way to develop a differential framework for evaluating, among other things, effective date and transition methods for private companies. The staff have reviewed a draft of that white paper and believe that the Board should consider those factors in addition to the comments mentioned above while it deliberates the effective dates and transition methods for the revenue recognition, leases, financial instruments, and insurance contracts standards projects. The staff also understand that the FASB staff have issued a separate memo on transition methods for non-public entities in connection with the revenue recognition project.

Appendix A

This Appendix provides the questions that the staff asked users in its user outreach survey.

Q1. As an investor, creditor, or other user of financial statements, please describe your job function.

a. Buy side
b. Sell side
c. Regulator
d. Credit analyst
e. Lending officer
f. Individual Investor
g. Other ________

Q2. Describe your investment perspective.

a. Long
b. Long/Short
c. Short
d. Equity
e. Fixed income
f. Other ________

Q3. Describe the industries or sectors you specialize in, if any.

a. Financial Services
b. Insurance
c. Power and Utility
d. Technology
e. Consumer Products
f. Health Care
g. Information Technology
h. Telecommunications
i. Transportation
j. Manufacturing
k. All of the above
l. Other ________

Q4. How important is it to the cost and effectiveness of your analysis that financial information for all periods presented be prepared using the same accounting policies?"

a. Absolutely essential,
b. Nice to have,
c. Not important at all.

Q5. Do you agree with the transition method as proposed for each project? If not, please include any changes would you recommend in the comment section below as well as your rationale for such changes.

Project	Proposed Transition Method	Comments
Accounting for Financial Instruments	Retrospective*	
Revenue Recognition	Retrospective*	
Leases	Limited Retrospective#	
Accounting for Insurance Contracts	IASB: limited retrospective FASB only published a discussion paper and this issue will be considered when developing a draft standard.	

* Retrospective transition method is where the company applies the new standard as if it always applied the standard.

Limited retrospective method is where the Boards provides some relief for an entity from applying the retrospective method.

Q6. The Boards have proposed two approaches to setting the effective dates of the new standards, a single-date approach (all of the new standards would become effective as of the same date) and a sequential approach (each new standard or an appropriate group of new standards would become effective as of different dates spanning a number of years). Do you prefer the single date approach or the sequential approach?

[Single Date or Sequential]

Q7. What are the advantages and disadvantages of your preferred approach?

[Text box for responses]

Q8. Under the sequential approach, which new standards should be sequenced (or grouped) together? Each group reflects the order in which the standards would be sequenced. Please note, more than one project can be included in each group. Additionally, please include your rationale for the manner in which you sequenced the standards.

Project	Group 1	Group 2	Group 3	Group 4
Accounting for Financial Instruments				
Revenue Recognition				
Leases				
Accounting for Insurance Contracts				

[Text box for comments]

Q9. Should the Boards give companies the option of adopting some or all of the new standards before their mandatory effective date? In what ways do differing implementation dates either enhance or impede your analysis and decision-making?

1) Yes for all
2) Yes for some __________________

3) No, not at all.

[Text box for comments]

Q10. Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

[Yes / No]

[Text box for comments on why or why not?]

Q11. Today, public companies are required to make disclosures in management's discussion and analysis about the potential effect of newly issued accounting standards that the company has not yet adopted. Do you find the information that companies disclose sufficient for your needs? If not, what information is in this thing or should be enhanced and how would that make your transitional analysis more effective or efficient?

[Yes / No]

[Text box for comments on why or why not?]

Q12. If the FASB issued a standard in 2011 that companies were not required to implement until years beginning in 2014, what kind of information should companies provide in their (insert information in appropriate text boxes):

- 2011 financial statements [Insert text box for comments]
- 2012 financial statements [Insert text box for comments]
- 2013 financial statements [Insert text box for comments]

Q13. If the staff has follow-up questions, may we contact you?

[Yes/No]

FASB Only

Q14. For which entities should the Board provide a delayed effective date? What would be the primary advantages and disadvantages of the delay to financial statement users?

a. Private Companies
b. Not-for-profit Organizations
c. Smaller public companies
d. Other ___________

Q15. How long should such a delay be?

a. 1-year
b. 2-years
c. 3-years
d. 4-years
e. 5 or more years

Q16. Should companies eligible for a delayed effective date have the option of adopting the requirements as of an earlier date?

[Yes / No]

IASB Only

Q17. Some jurisdictions will apply all of the requirements in International Financial Reporting Standards (IFRSs) for the first time. Should the Board give companies in those jurisdictions an option to apply IFRSs before their mandatory effective date? Why or why not?

1) Yes for all
2) Yes for some jurisdictions: ________________
3) No, not at all.

[Text box for comments on why or why not?]