Project: **Effective Date and Transition Methods**

Topic: **Comment Letter Summary**

Purpose

1. During the course of this year, the IASB expects to complete a number of major projects that will improve financial reporting. The Board therefore published a document in October 2010 (the *Request for Views*) requesting views on the overall time and effort that will be needed to adapt to the new IFRSs and when those IFRSs should become effective. The Board will use the information that it learns from the responses to develop an implementation plan for the new IFRSs that will help interested parties to manage the pace and cost of change. The comment letter period ended on 31 January 2011.

2. This paper gives a summary of the comments received in the *Request for Views* document that was published in October 2010. At the time of writing, we have only summarised comments received from comment letters. The staff are also seeking input from the IFRS Advisory Council, the Analyst Representative Group and the Global Preparers Forum. An overview of the discussion by the Advisory Council is in Appendix B. If the other groups provide additional information not contained in this summary, we will update the Board.

3. The Board is also working together with the FASB on some projects. The FASB published a similar document Discussion Paper *Effective Date and Transition Methods*. Agenda Paper 3A/FASB Memorandum 2 gives a summary of the comments received.

Outline of the summary

4. We have summarised the comment letters based on topics or issues. We have also included the associated questions asked in the *Request for Views* for your information:

Topics / Issues	**Paragraph No in this summary**	**Questions in the *Request for Views***
Which IFRSs are affected?	5-7	Question 1 (e)
Who responded?	8-10 Appendix A	Question 1 (a) – (d)
General comments	11-13	-
Preparation for, and transition to, applying the new IFRSs	14-39	Question 1(e) Question 2 Question 3 Question 4
Implementation approach and timetable + Single-date vs sequential + Early adoption?	40-63	Question 5 Question 6
Harmonisation with US GAAP	64-68	Question 7
First-time adopters of IFRSs	69-72	Question 8
Overview of discussion by the IFRS Advisory Council	Appendix B	-

Which IFRSs are affected?

5. The projects that are subject to the *Request for Views* are:

   (a) Fair value measurement;

   (b) Financial instruments (IFRS 9);

(c) Revenue from contracts with customers;

(d) Insurance contracts

(e) Leases;

(f) Post-employment benefits—defined benefit plans: proposed amendment to IAS 19; and

(g) Presentation of items other comprehensive income—proposed amendments to IAS 1.

6. The *Request for Views* also stated that the Board would give consideration to other new IFRSs eg consolidation and joint arrangements. This was so that stakeholders' views on the interaction of the new IFRSs with other proposed IFRSs could be understood. The Board also stated that it would reconsider the effective date of IFRS 9 as part of its finalisation of the proposed IFRS *Insurance Contracts*.

7. The comments received from the *Request for Views* will also help the IASB when it considers the effective dates and transition methods for other projects such as financial statement presentation and financial instruments with the characteristics of equity. However, after the *Request for Views* was published the Board modified its work plan. Work on the financial statement presentation and financial instruments with characteristics of equity projects is not expected to resume until late 2011. The status of these projects will also be considered as part of the Board's consultation on its future agenda.

Who responded?

8. As of 18 February 2011, the Board had received 146 comment letters.

9. Respondents ranged from preparers, standard-setters, industry groups, regulators and auditors. Because of the scope of the *Request for Views*, there were also many respondents from the financial services and insurance industries. Most of them responded as preparers, but some responded as both preparers and users.

Unfortunately, there was a limited response from user-only groups. Appendix A shows a pie chart of the breakdown of the respondents.

10. The Board also received comments from different jurisdictions including developing and developed nations, and from those that have been applying IFRSs for some time, those that have recently adopted IFRSs and others that will adopt IFRSs in the future. Appendix A shows a pie chart of the breakdown of those respondents. Their responses, based on their background and experience, will assist the Board in making decisions with respect to the effective dates and transition methods for the projects that are the subject of the *Request for Views*.

General comments

11. Nearly every respondent welcomed and commended the Board for taking an overall view to considering the effective date and transition application, rather than having adopted a piecemeal approach of reviewing each IFRS in isolation, because of the scale and significance of the changes anticipated.

12. Many respondents also stated that for many projects the final requirements remain uncertain and that they were providing their comments based on the proposals in the exposure drafts.

13. Many respondents also emphasised that the Board, in its goal to complete many new IFRSs by June 2011, should prioritise achieving high quality global standards. For example a respondent stated:

> Whilst we understood the IASB's rationale to accelerate the issuance of the proposed new IFRSs by June 2011, we wish to emphasise that the urgency to issue these IFRSs should not be at the expense of achieving high quality global standards. [CL107]

Preparation for, and transition to, applying the new IFRSs

14. The Board asked which of the proposed new IFRSs is likely to require more time to learn about, train personnel for, plan for and implement or otherwise adapt for (whether they are a preparer, auditor, standard-setter or user), the type of costs they would expect to incur in planning for and adapting to the new requirements, and the primary drivers of those costs.

15. In addition, the Board also asked whether stakeholders agreed with the transition methods as proposed for each project (see table below), when considered in the context of a broad implementation plan covering all the new requirements.

16. The Board proposed the following transition methods for the following projects:

Project	Transition method
Consolidation	Limited retrospective
Fair value measurement	Prospective
Financial instruments (IFRS 9)	Retrospective[1]
Insurance contracts	Limited retrospective
Joint arrangements	Limited retrospective
Leases	Limited retrospective
Post-employment benefits—Defined benefit plans	Retrospective
Presentation of items of other comprehensive income	Retrospective
Revenue from contracts with customers	Retrospective

Impact of new IFRSs on respondents

17. Most respondents stated that some new IFRSs could have pervasive changes for all types of entities. Projects such as leases and revenue recognition will require new data to be analysed and could require a number of adjustments: eg leases

[1] The exposure draft of Phase 3 of IFRS 9 had not yet been published when the *Request for Views* was published. Phase 3 proposed a prospective transition method. Phases 1 and 2 adopted a retrospective transition method.

because of the right-of-use model proposed in the leases project compared with the existing IAS 17 *Leases*, which has two types of leases, and revenue recognition where there are proposals for new requirements for distinct performance obligations.

18. Some projects will probably have a higher impact on particular industries. For example, some respondents noted that the requirements in IFRS 9 will have a higher impact on financial institutions—the requirements on classification and measurement changes will require entities to review potentially high volumes of financial assets and to apply new classification criteria. Similarly, for insurance entities, the proposed replacement of IFRS 4 *Insurance Contracts*, if implemented, would require them to assemble the data necessary to apply the building block approach and to implement system changes.

19. Many respondents noted that projects such as post-employment benefits, presentation of items of other comprehensive income, consolidation and joint arrangements would have a low to medium impact on them.

20. The fair value measurement project received mixed reaction about the impact that it would have on respondents. Entities that use fair value measurements often, eg financial services or investment properties entities, asserted that this project will have a higher impact because they will need to review their accounting policies and models to ensure that they meet the requirements in the new IFRS. Other entities noted that this project will have a lower impact on them because many of their assets are accounted on a cost basis.

Costs to learn, train, plan for and implement

21. The Board asked respondents (whether they were preparers, auditors, industry groups, standard-setters, users or regulators) what types of costs they expect to incur to comply with the new IFRSs, and the relative significance of each cost component.

22. Many respondents asserted that applying the new IFRSs would require a major effort and, for some industries such as finance or telecommunications

companies, the costs in applying those IFRSs would be similar to those of adopting IFRSs for the first time. Consequently, many respondents encouraged the Board to provide a stable platform of standards.

23. The main types of costs that respondents expect to incur are:

(a) Understanding and translating new requirements to train personnel.

(b) Changing processes (eg internal controls and IT systems). Entities might either have to adapt existing systems or purchase new IT systems to comply with new requirements for recognition, measurement and disclosure. Some respondents asserted that the leases project and revenue recognition project would require them to purchase new systems to comply with the new requirements.

(c) Updating contracts and transactions, for example to update banking covenants to reflect the new requirements. For example, capitalising all operating leases would mean higher liabilities and affect some financial ratios.

(d) Use of external experts such as consultants or contractors because their existing pool of employees may not have the expertise to implement some of the new requirements. However, some respondents also noted that this issue may be mitigated if the Board sets a later effective date.

(e) Communication to external users and other key stakeholders (eg regulators) to explain the impact of the new standards on financial results and how it affects key performance indicators.

(f) For preparers, additional audit costs because some of the projects (eg leases and financial instrument projects) proposed that entities should use more estimates or more management judgement, which may require additional audit activities.

Effects of new IFRSs on broader financial reporting systems

24. Furthermore, respondents noted the effects on the broader financial reporting system arising from the proposed new IFRSs:

(a) Any legislative or regulatory requirement that is underpinned by an accounting concept (eg profit) will likely be affected by changes to accounting standards.

   (i) Financial service and insurance regulations: entities in banking and insurance will face regulatory implications from Basel requirements and Solvency II requirements that could be significant. A respondent noted that resources for experts would be in high demand, despite the size of the entities applying the requirements.

   > '… the resources, even of big companies, will be limited due to changing requirement in other areas currently under way, eg Basel III demands for financial institutions or Solvency II for insurers … ' [CL75]

   (ii) Taxation: the number of differences between IFRSs and local taxation requirements may increase, so entities will have to maintain more financial records to comply both with IFRSs and with taxation requirements.

   (iii) For auditors, the impact of the consolidations and leases project could affect auditors' independence requirements in some jurisdictions[2].

(b) Some auditor respondents expressed concern about auditors' abilities to audit some of the proposed accounting requirements because the judgemental nature of some of the proposed requirements may lead to a lower level of auditable evidence to support management's judgment. For example, the revenue recognition standard proposed using a probability-weighted average estimate to measure contingent payments.

(c) Endorsement by local jurisdiction of IFRSs: some European respondents noted that the EU had not yet endorsed IFRS 9. If the EU

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[2] CL83 stated: 'Current US SEC independence rules permit auditing firms to enter into a leasing arrangement with a US SEC registrant audit client if the lease is an operating lease and certain other conditions are met. The elimination of the distinction between operating and capital/finance leases may mean that auditors of US foreign private issuers would have to change their leasing arrangements to remain independent within the US SEC rules, or that the independence requirements in this area may need to be revisited. Other jurisdictions may have similar requirements.'

delays the endorsement, some entities that are listed in other jurisdictions that require full IFRSs would have to maintain two financial records. A respondent stated:

> If EU endorsement is delayed beyond 1 January 2013, IAS 39 *Financial Instruments: Classification and Measurement* will cease to exist without EU companies having an IFRS standard to use in its place. This will mean that companies with US listings would have to use IFRS 9 in their US filings (which require full IFRS) and, presumably, use IAS 39 in their statutory financial statements. This would be highly undesirable, and costly. [CL67]

Transition methods

25. For projects where the Board had not commenced redeliberations on the exposure drafts when the *Request for Views* comment period ended (eg leases, revenue recognition and insurance), many respondents either provided the comments from their previous comment letters or referred to those comments in their responses to the *Request for Views*. Consequently, for these projects, there was a consistent message given in their comments on individual projects and in their responses to the *Request for Views*.

26. Most respondents agreed with the Board that retrospective application should be the default approach required by IFRSs unless it is too costly, or impracticable (such as when the information needed for prior period is not available) or else that the Board should allow the use of hindsight to transition to new requirements.

27. A respondent noted that the 'impracticable' test in IAS 8 *Accounting Policies, Changes in Estimates and Errors* has become a high hurdle that auditors rarely or never accept has been passed. That respondent was concerned that, as a result of that current practice, entities would have to undertake a heroic effort and incur significant costs that will exceed the benefits of applying retrospective application, particularly for the new consolidation and revenue recognition standards.

28. Most respondents agreed with the Board's proposed transitional provisions for most of the projects that are subject to the *Request for Views*. This includes the

fair value measurement project, where it is the only project for which the Board proposed prospective application.

29. Some respondents were concerned with the transitional provisions proposed. They are discussed further below.

Leases

30. Some respondents proposed that entities should be given an option to apply the standard retrospectively rather than requiring only a limited retrospective application.

31. A respondent proposed prospective application because retrospective application may require the use of hindsight.

Insurance

32. Similarly as with leases, some respondents proposed that entities should be given an option to do retrospective application. These respondents disagreed with the Board's proposal on transition on determining the residual margin, classification of the financial assets and the grandfathering clause on the proposed definition of a insurance contracts. For example, a respondent stated:

> We strongly disagree with the proposed transitional requirements for the insurance project as discussed in our comment letter. … Setting the residual margin to zero on transition will result in mature and profitable life insurance businesses reporting little profit or less for several years until the business written after transition becomes a significant proportion of the portfolio. [CL47]

33. A respondent suggested that given the linkage between IFRS 9 and insurance contracts, particularly assets backing insurance contracts, it might be better to apply the same transition date and transition approach to these two IFRSs.

Revenue recognition

34. Some respondents were concerned about having to apply the proposed revenue recognition, if adopted, retrospectively for long-term contracts and contracts with multiple performance obligations. Re-examination of these contracts would be an extensive exercise. A respondent suggested that the Board should

acknowledge that it is acceptable that significant estimation may be required in retrospective application and that the Board should require entities to disclose the approach taken in determining the retrospective amounts.

Financial instruments

35. Some respondents suggested that the Board should consider the effective date of IFRS 9 for the entire standard, rather than for each of its individual phases.

36. Some respondents who disagreed with the transitional provisions in IFRS 9 suggested that the Board should adopt requirements similar to those for a first-time adopter of IAS 39 with accompanying reconciliation disclosures and explanation for the main changes in classification and measurement.

37. Respondents who commented on the specific transitional provisions for each phase of IFRS 9 were mainly preparers from the financial services industry:

    (a) Some respondents also disagreed with the transitional provisions in IFRS 9 Phase I (Classification and measurement of financial assets) because they considered it to be complex. A respondent noted that the transitional relief is not available for entities that adopt IFRS 9 on or after 1 January 2012. Some respondents proposed that entities should have the option to present comparative figures for all financial assets under IFRS 9.

    (b) Some respondents noted that the Board's proposed transitional provisions on impairment will present the greatest operational challenge and take the most time to implement. (Staff note: Since the close of the comment period on the *Request for Views*, the Board has published for public comment a supplementary document on impairment accounting that is intended to address the operational concerns raised.)

    (c) Some respondents agreed with the prospective application on hedge accounting because the proposals in that ED were materially different from the existing requirements.

Disclosure requirements on transition

38. A user respondent urged the Board to consider disclosures of changes and the effects of new standards.

> Members reached a broad support in their views that disclosures highlighting changes and explaining the effect of the new standards should be provided to users. A concise description of the new standard including the quantitative impact in each of the financial statements should be part of the disclosures. A concrete timeframe for adoption should be also specified. Moreover companies should provide the quantitative effect of the changes rather than qualitative comments about the impact of the new standards in their financial statements. … the purpose of the disclosure is to present additional information and particularly clarification about the reporting standards. Additionally, we believe that disclosures explaining standard changes should be for the same time length that the transition period. [CL135]

39. Some respondents questioned how it is possible for entities to apply the requirement in paragraph 30 (from which an extract is reproduced below) in IAS 8 relating to describing the expected effect of new IFRSs issued but not yet implemented. This is of particular concern if the Board were to mandate a sequential approach.

> When an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose this fact and details of the possible impact of application of the new IFRS on the entity's financial statements.

They propose that entities should disclose information about the expected impact of applying the new IFRSs only in the year preceding application. Such disclosures inform markets about when to expect changes to the entity's financial statements.

Implementation approach and timetable

40. The Board asked respondents whether they preferred a single-date approach or a sequential approach. In addition, respondents were asked whether early application of the new IFRSs should be allowed.

41. A majority of the respondents preferred a single-date approach. Respondents who preferred a single-date approach were mainly preparers from larger entities,

auditors, standard-setters and accounting professional bodies. Respondents who supported a sequential approach were mainly from smaller entities who prepare IFRSs and some regulators.

42. Many respondents who supported having a single-date approach (particularly if they proposed an effective date of 1 January 2015) also supported an early adoption approach. They viewed this approach as being similar to a sequential approach.

43. Some respondents also noted that any effective dates that were proposed should be reconsidered if the Board decided to change the transitional provisions proposed in the exposure drafts.

44. In addition, some respondents highlighted that the Board should also consider prescribing the same effective date for other projects such as the financial statement presentation project for which the Board has not yet published an exposure draft and also for the replacement of IAS 37 *Provisions, Contingent Liabilities and Contingent Asset*. The point was made that, if the Board decides on a single-date approach, the single effective date should also be applicable for other standards that will be issued after June 2011.

Other approaches

45. The Board also asked respondents if there were other types of approaches—other than single-date or sequential approach—that should be considered.

46. A respondent identified, considered and rejected other possible approaches.

> We did consider and reject approaches based on setting effective dates by industry, jurisdiction or size, given the objective or promoting global comparability. Although setting effective dates by size would allow large entities to pave the way for smaller entities, developing a size threshold for global application would be impracticable. [CL114]

Why a single-date approach?

47. The reasons for which respondents supported a single-date approach are:

    (a) It will maintain comparability for all entities that apply IFRSs.

(b) Because of the interrelationships and interdependencies between standards (eg *Financial Instruments* and *Insurance Contracts* and the fair value measurement project):

 (i) Many entities would have to adopt standards covering a number of large topics (eg revenue recognition, leases, financial instrument, insurance contracts) at the same time.

 (ii) A single effective date would minimise asset/liability mismatches. For example, the insurance contracts project focuses on the liability side and entities will have to apply the requirements in IFRS 9 for the asset side.

 (iii) It is difficult for the IASB to find a realistic solution to group IFRSs in a way that would fit or a majority of IFRS preparers.

(c) It achieves economies of scale and minimises disruption: the impact upon financial statements will occur only once. Combining the work to carry out each project implementation allows the alignment of processes and achieves synergies in the use of resources. Furthermore, users do not need to change their models so often, helping them to predict and evaluate entities based on old and new IFRSs being applied.

(d) It avoids conflicting scope specifications between standards. For example, guidance on financial guarantees will be moved from IAS 39 *Financial Instruments: Recognition and Measurement* to the new insurance contracts standard.

(e) A single date with an appropriate lead time would allow preparers to plan all changes, including system changes, as one project. It would allow preparers to educate staff and investors on the changes resulting from new IFRSs in a more effective way.

48. Respondents favouring a single-date proposed an effective date that ranged from 1 January 2014 to 1 January 2017. Most respondents preferred an effective date no earlier than 1 January 2015 because it would allow preparers at least three years to implement the new or updated IFRSs. These respondents also noted

that the suggested effective dates were based on the Board's target deadline to complete the IFRSs by mid-2011. Otherwise, the effective dates should be adjusted accordingly.

49. A respondent suggested that some of the projects that require more time to implement, such as insurance and the part of IFRS 9 dealing with impairment, should be given at least five years from date of issue to ensure that preparers from emerging markets are prepared to adopt these standards. (As noted above, the Board had published an additional document on impairment for public comment that may address some of the operational concerns raised by stakeholders.)

Why a sequential approach?

50. The reasons why some respondents supported a sequential approach are:

(a) It would allow preparers, particularly for those entities with fewer resources, to manage their resources better. Making all the changes as one project could be an excessive burden and costs may be significantly higher if they need to take on additional resources to deal with all the changes at once. Entities will be able to spread the burden of transition over a longer period and avoid facing a major peak in using resources in a single reporting period.

(b) This will help to reduce the need to engage external assistance to implement a large number of changes.

(c) It avoids the danger, which would exist under a single-date approach, that if one of the proposed IFRSs is not completed on time, this may delay implementation of all new standards.

(d) It allows for improved financial reporting to start to reach the market as soon as is practicable.

(e) Many of the proposed standards deal with different areas of accounting (eg the OCI project vs leases), so these respondents do not expect significant economies of scale by adopting the standards on the same date.

(f) Based on recent experience: a jurisdiction recently introduced series of standards sequentially (although in a 5-10 year implementation period) and respondents from this jurisdiction noted that the implementation was generally smooth.

51. Respondents who favoured a sequential approach proposed grouping standards that were closely related and would most likely be implemented as a package or grouping standards in accordance with the time needed to implement them.

52. There was a range of suggested groups of standards. Commonly suggested groups are in the table below (note: most respondents discussed financial instruments as a single application standard, although some respondents proposed that different phases of IFRS 9 could be implemented at different times because of the time required to apply the requirements).

	Sequential approach I	**Sequential approach II**	**Sequential approach III**	**Sequential approach IV**
First Group	Post-employment benefits OCI	Post-employment benefits OCI Consolidation Joint arrangements	Post-employment benefits OCI Consolidation Joint arrangements Fair value measurement	Post-employment benefits OCI
Second group	Consolidation Joint arrangements	Insurance Leases Financial instruments Revenue recognition Fair value measurement	Insurance Leases Financial instruments Revenue recognition	Insurance Leases Financial instruments Revenue recognition Fair value measurement Consolidation Joint arrangements
Third group	Fair value measurement Insurance Leases Financial instruments Revenue recognition			

53. Reasons given for such groupings are as follows:

    (a) Sequential approach I:

        (i) Post-employment benefits and OCI: these standards are expected to have minimal impact and could have the earliest effective date.

        (ii) Consolidation and joint arrangements: some respondents noted that they had started to consider the implications of applying these IFRSs based on the draft IFRSs available and as a result they think that they may not require as much as time to implement these standards. These standards should have the same effective date.

        (iii) Fair value measurement, financial instruments, revenue recognition, insurance and leases: because these standards are expected to have a wide area of impact on accounting and are interrelated, applying them together will ensure as much comparability between entities as possible. These respondents suggested that these standards should have the latest mandatory effective date.

    (b) Sequential approach II:

        (i) Consolidation, joint arrangements, post-employment benefits and OCI project. This is because the changes proposed in these projects are considered to be less pervasive and should have an earlier effective date.

        (ii) Revenue recognition, leases, insurance contracts, financial instruments and fair value measurement: same reasons as stated in Sequential approach I (paragraph (a)(iii) above).

    (c) Sequential approach III:

        (i) Fair value measurement and OCI: these projects provide a unified definition for application and are expected to require less time to implement.

            Consolidation, joint arrangements, post-employment benefits: same reason as Sequential approach II (paragraph (b)(i) above).

(ii) Revenue recognition, leases, insurance contracts and financial instruments: same reason as stated in Sequential approach I and Sequential approach II (paragraph (a)(iii) above).

(d) Sequential approach IV (this was mainly proposed by preparers in the financial services industry who supported a sequential approach and those who prefer a single-date approach, but gave suggested sequential approaches if the Board were to decide on a sequential approach):

(i) Post-employment benefits and OCI: same reasons expressed as in Sequential approach I.

(ii) Consolidation, joint arrangements, fair value measurement, financial instruments, leases, revenue recognition and insurance: respondents stated that the proposals in these projects are expected to require a longer lead-time to be applied and there were some interdependencies among the projects.

Should early application be allowed?

54. A slight majority of respondents supported allowing early application o f IFRSs.

55. Some respondents noted that permitting early application might not necessarily mean that large numbers of entities would choose to early adopt. Many would choose to use as much time as possible to prepare for application.

Support for early application

56. Supporters for permitting early application were fairly broad-based. They came from preparers, standard-setters, regulators and auditors.

57. Respondents who supported early application did so because:

(a) It would give preparers the option to provide users with information that is more relevant and more faithfully represented earlier. Some questioned why preparers should be applying what might be regarded as obsolete IFRSs over several reporting periods if they have the resources to apply updated IFRSs earlier.

(b) Early application by some would help other entities to identify unanticipated transitional issues that the IASB could address before the mandatory effective date. It would also help others to benefit from the lessons learnt from the experiences of early application.

(c) Entities, such as those that intend to go for an initial public offering (IPO), may find it preferable to apply the new requirements early because of economies of scale or the availability of resources associated with the other reporting changes that such entities may be making for the purposes of the IPO.

58. Many supporters of permitting early application also stated that it would be essential for users of financial statements to be able to fully understand the impact, to inform both their assessment of the company itself, and also to make effective comparisons to other companies that have not chosen to early adopt.

59. Respondents who supported early application of IFRSs proposed two approaches on early application:

(a) Allow entities to choose which IFRSs they would prefer to apply early. This is because they may be in a better position to set out their own road map to apply the new IFRSs. However, some noted that if the mandatory effective date of a new standard was, eg three years after the standards are issued, there would be three years of non-comparable information with other entities.

(b) Restrict the standards to be applied early to defined groups of standards. For example:

(i) the Board could restrict early application to groups of standards that are interrelated, in order to be efficient and effective. For example, entities could be required to adopt the revenue recognition and leases standards together in order to ensure that lessors report all income based on the new requirements.

(ii) the Board could restrict the standards to be applied early based on the time required to apply new IFRSs. For example, the Board could require the first group to be those standards that need less time to implement (eg the OCI project and post-employment benefits). Other standards, such as revenue recognition, leases, insurance and financial instruments, which may require entities to take a longer time to implement should be applied at a later date.

60. Some respondents noted that IFRS 9 *Financial Instruments* permits early application and that some jurisdictions and entities have applied the requirements in IFRS 9.

61. Some respondents proposed that the Board should consider providing similar effective date requirements to those in IFRS 3 *Business Combinations* (revised in 2008) whereby entities were permitted to apply the new standard early only after a specified date.

Prohibiting early application

62. Supporters of prohibiting early application were mainly from preparers from the financial services industry and some financial services regulators.

63. Respondents who did not support allowing early application stated that:

(a) Allowing early application may affect comparability across entities. This might be acute if entities could 'pick and choose' which IFRSs to apply first.

(b) Not allowing early application would allow some entities in some jurisdictions time to translate IFRSs into their local language or to be adopted into local law so that they could be applied at the same time as for other jurisdictions that apply IFRSs.

(c) Some regulators have a practice of prohibiting early application and requiring a regulated industry to apply new standards at the mandatory effective date or at a specified earlier date.

Harmonisation with US GAAP

64. The Board asked whether respondents thought that the IASB and FASB should require the same effective dates and transitional methods for their comparable standards.

65. Many respondents noted that the IASB should place priority on consistency of proposed standards within the set of IFRSs and consider the cost and benefit for entities that apply IFRSs before considering the consistency between IFRSs and US GAAP. Their reasons are:

    (a) IFRSs and US GAAP have different starting points and the transition challenges would differ;

    (b) US rules on comparative information differ from equivalent IFRS requirements; and

    (c) the need for translation and for jurisdictional adoption procedures are not applicable in the US environment.

66. Some also believed that having different effective dates was not a significant concern provided that the standards are fully converged.

67. However, many respondents encouraged the IASB and the FASB to align the effective dates and transition methods under IFRSs and US GAAP because it would:

    (a) improve comparability between the two;

    (b) create a level playing field internationally; and

    (c) minimise issues if the US adopts IFRSs.

68. Some also noted that some projects are jointly developed with the FASB, but are at different stages in development, eg financial instruments and insurance contracts. Respondents urged the boards to prioritise pursuing adequate convergence of standards and proposed the same effective dates for comparable standards.

First-time adopters of IFRSs

69. The Board asked if it should permit different application dates and early application requirements for first-time adopters of IFRSs. This is because different jurisdictions have adopted IFRSs at different times: a number of jurisdictions will be applying IFRSs for the first time, some jurisdictions would have been applying IFRSs for a number of years and others would have only recently adopted IFRSs.

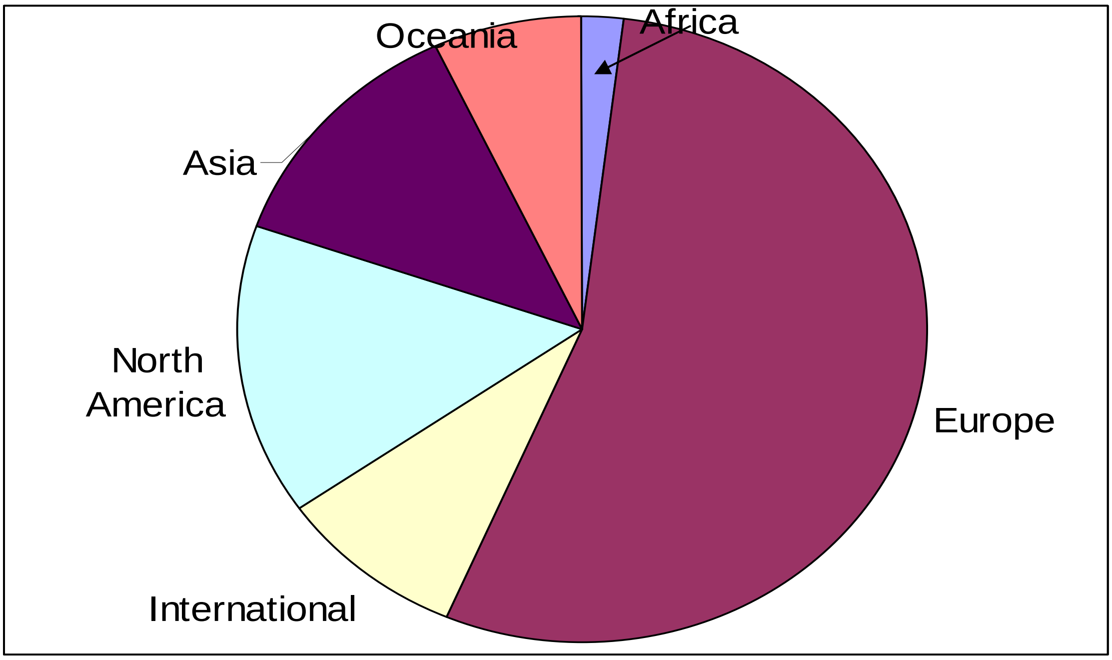
70. The majority of those who responded on this issue, including respondents who proposed prohibition of early application of IFRSs, stated that the Board should strive to minimise the extent to which a first-time adopter is forced to implement further changes to its accounting policies soon after adopting IFRSs. For example, an entity adopts IFRSs in 2013, but the Board mandates the effective date for all new projects to be 2015. They think that comparability concerns relating to early application is a less significant issue for entities in the year of first-time adoption.

71. Similarly as for some respondents who supported early application of IFRSs, some respondents also noted that if an entity elects to apply new IFRSs early when adopting IFRSs, there should not be a free choice on which new or revised IFRSs are applied early. Instead, they should apply IFRSs based on standards that are interdependent or integrated; eg revenue recognition and leases standards should be applied simultaneously.

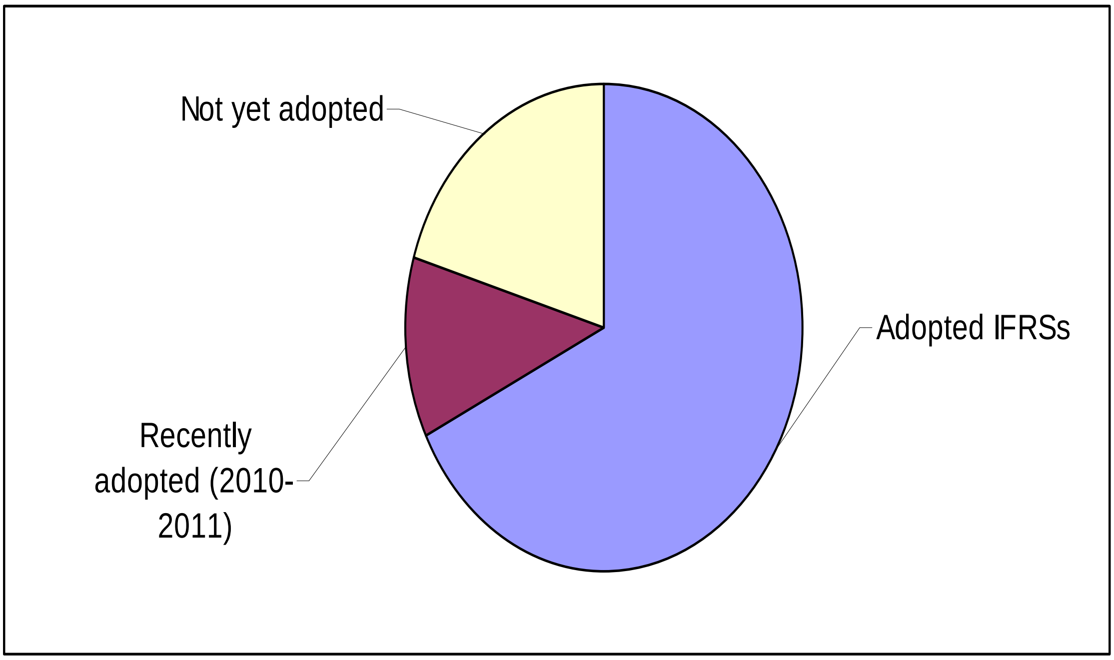
72. Some suggested that the mandatory effective dates for first-time adopters and those that are now applying IFRSs should be the same. However, others noted that this view may be good in theory, but they also noted that some jurisdictions that have not adopted IFRSs (eg some developing nations) may have more difficulties implementing the new requirements than do existing preparers in other jurisdictions. They encouraged the Board to provide additional and more flexible transitional arrangements so as not to deter these jurisdictions and entities from adopting IFRSs.

Appendix A Breakdown by respondent type

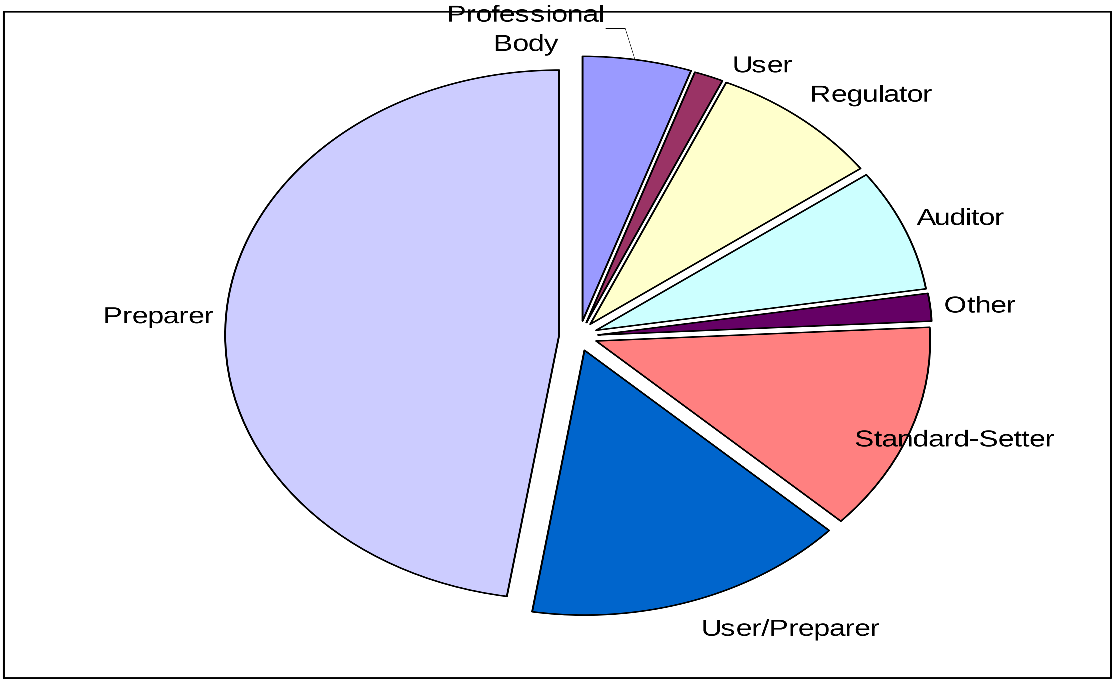
Breakdown by region



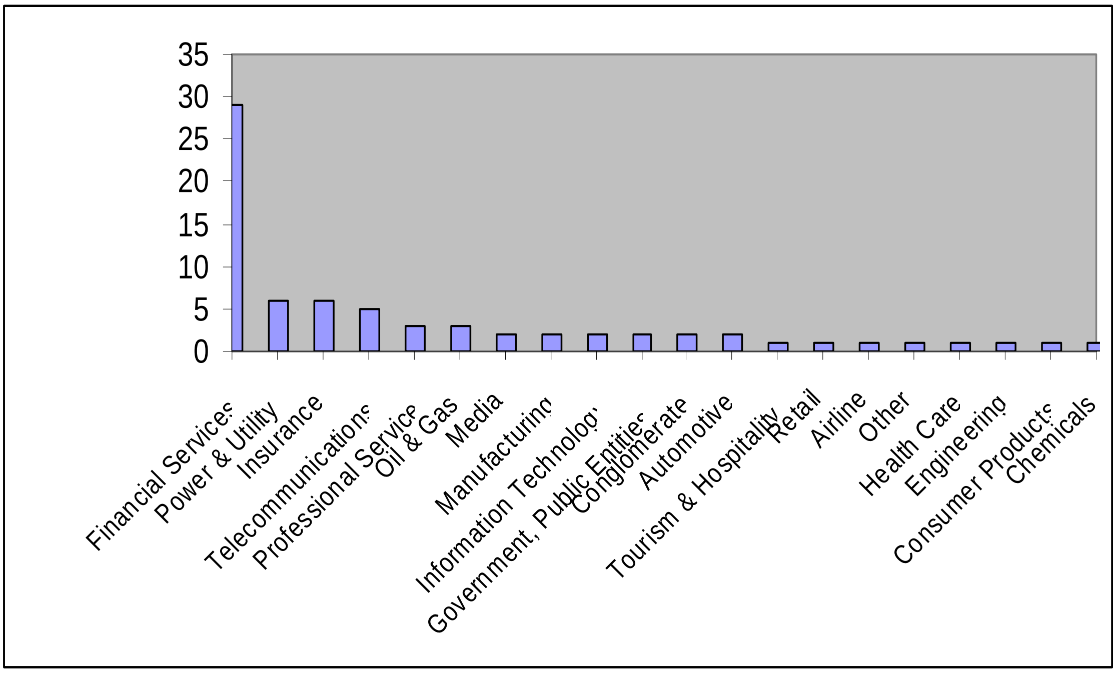
Breakdown by respondents who have adopted IFRSs, recently adopted and those that have committed themselves to adopt IFRSs



Respondent Type



***Industry*[3]**



[3] Note: the 'industry type' responses do not equal the total of comment letters because some respondents eg standard-setters and auditors would respond for all types of industries.

Appendix B Overview of discussion by the IFRS Advisory Council

B1. The IFRS Advisory Council discussed the following issues raised in the *Request for Views* at their February 2011 meeting[4]:

(a) the implementation method approach: whether to apply a single-date or sequential approach and whether early application of IFRSs is useful;

(b) harmonisation with US GAAP: whether the IASB and the FASB should align effective dates and transition methods for their joint projects; and

(c) if the Board should consider providing relief for some disclosure requirements.

B2. Advisory Council members discussed these issues in groups based on their backgrounds: users/regulators, preparers, auditors and standard-setters.

Implementation Approach

B3. Many Advisory Council members acknowledged that a single-date approach was a good objective, but saw various drawbacks. Advisory Council members' reasons for favouring either a single date or a sequential date approach were broadly similar to the views expressed in the comment letters. Advisory Council members also noted that there was no perfect answer and that the Board would have to apply judgement in making its decision.

B4. The predominant view among Advisory Council members for the Board's major projects – leases, insurance, revenue recognition and financial instruments – was to have an effective date no earlier than 1 January 2015, assuming that these projects are completed in 2011. Some members noted that an effective date of 1 January 2015 was not 'far away' because time is needed to analyse the collect data and to prepare comparative financial information.

[4] Papers for this meeting can be found here: http://www.ifrs.org/Meetings/IFRS+Advisory+Council+February+2011.htm

B5. Advisory Council members also thought that allowing early application was useful. Advisory Council members also advised the Board to give due consideration to first-time adopters.

Harmonisation with US GAAP

B6. Consistent with the comment letter response, many Advisory Council members encouraged the IASB and the FASB to have the same effective date and transition method.

Disclosure relief

B7. The Advisory Council members discussed whether the IASB should consider providing relief for some disclosure requirements in IAS 8:

(a) Advisory Council members from the user/regulator background thought that the Board should consider requiring entities to provide additional information because of the possible major changes to be made by the projects.

(b) Advisory Council members from the preparer background thought that entities should only disclose the possible impact of IFRSs only in the year before the effective date because it would help them reduce costs.

(c) Advisory Council members from the auditor and standard-setter backgrounds noted the requirements in IAS 8 were not be that onerous and should not be changed.