

## STAFF PAPER

20-21 February 2014

## REG IASB Meeting

<b>Project</b>	<b>IFRS 9 <i>Financial Instruments</i></b>		
<b>Paper topic</b>	Mandatory effective date of IFRS 9		
CONTACT(S)	Riana Wiesner	<a href="mailto:rwiesner@ifrs.org">rwiesner@ifrs.org</a>	+44 (0)20 7246 6926
	Tiernan Ketchum	<a href="mailto:tketchum@ifrs.org">tketchum@ifrs.org</a>	+44 (0)20 7246 6937

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

**Background**

1. IFRS 9 *Financial Instruments* (2009) and IFRS 9 (2010) originally had a mandatory effective date of 1 January 2013, with earlier application permitted. In December 2011 the IASB amended IFRS 9 (2009) and IFRS 9 (2010) to require application of IFRS 9 for annual periods beginning on or after 1 January 2015.<sup>1</sup> This change was made to:
  - (a) respond to requests that all phases of IFRS 9 have a single effective date; and
  - (b) provide sufficient lead time to implement the proposals.
2. The IASB considered that the appropriate mandatory effective date of IFRS 9 will largely depend on the time and effort required to implement the expected credit loss impairment model. Therefore, as part of the 2013 Impairment ED<sup>2</sup>, the IASB asked for feedback on what lead time was required to implement the proposals on expected credit losses and also asked for views on what the resulting mandatory effective date for IFRS 9 should be.
3. The *Due Process Handbook*, as issued in February 2013, describes how the IASB determines effective dates:

<sup>1</sup> November 2011 Agenda Paper 1A

<sup>2</sup> Exposure Draft ED/2013/3 *Financial Instruments: Expected Credit Losses*

*A Standard, or an amendment to a Standard, has an effective date and transition provisions. The mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements.*

4. The IASB discussed the mandatory effective date of IFRS 9 in July 2013 and noted that it will only be able to determine the mandatory effective date after the redeliberations on the impairment and classification and measurement requirements have been completed, and the issue date of the completed IFRS 9 is known. The IASB therefore agreed to defer the mandatory effective date of IFRS 9 without specifying a new mandatory effective date, pending the finalisation of both the impairment and the classification and measurement requirements. The 1 January 2015 mandatory effective date was removed from IFRS 9 through the publication of IFRS 9 *Financial Instruments* (Hedge Accounting and amendments to IFRS 7, IFRS 9 and IAS 39) (2013). IFRS 9 remains available for early application<sup>3</sup>.
5. The IASB usually tries to allow at least 18 months between the issuance of a final Standard and the mandatory effective date. If the final version of IFRS 9 is issued before the end of June 2014, as per the current work plan, an 18-month implementation period would result in an effective date of 1 January 2016.
6. However, in November 2013 the IASB discussed that an implementation period of only 18 months may put undue pressure on entities to implement IFRS 9 and questioned whether robust implementation of the expected credit loss requirements within such a short time frame would even be feasible.<sup>4</sup> The IASB observed that in other cases in which there have been potential material system changes, such as in the case of the forthcoming new standard on Revenue Recognition, the IASB has agreed a longer implementation period.
7. In November 2013 the IASB tentatively decided to confirm that the mandatory effective date of IFRS 9 will be *no earlier than* annual periods beginning on or after 1 January 2017. This was done to provide a ‘signal’ to the market and to

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<sup>3</sup> This has been confirmed at the January 2014 IASB meeting (Agenda Paper 6C)

<sup>4</sup> November 2013 Agenda Paper 5F

respond to concerns from preparers about the lead time needed for the implementation of IFRS 9 and to assist entities in their planning for the application of IFRS 9.

### **Purpose of this paper**

8. This paper provides a basis for the IASB to determine the mandatory effective date for IFRS 9 and is structured as follows:
  - (a) summary of feedback received;
  - (b) staff analysis; and
  - (c) question to the IASB.
9. Although the mandatory effective date will apply to the completed version of IFRS 9 as a whole (ie classification and measurement, impairment and hedge accounting<sup>5</sup>) the analysis in this paper focuses on the period required to implement the expected credit loss model as that is expected to be the phase that requires the greatest lead time for most entities (particularly financial institutions).

### **Summary of feedback received**

10. As discussed in the July 2013 analysis of comment letters<sup>6</sup> on the Impairment ED, respondents generally considered that a three-year lead time would be needed to implement the proposals. Many noted that even sophisticated entities would need to make significant system changes in order to implement the proposed model, and that specialised resources would be required. Respondents indicated that such a lead time would enable them to apply the model in parallel with the current incurred loss impairment model for a reporting period to ensure operability and information quality. In contrast, some thought two years would be sufficient, and a few considered that four to five years would be needed.

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<sup>5</sup> Although the mandatory effective date will be applicable to all phases of IFRS 9, the IASB has already decided to allow entities to choose to continue to apply the IAS 39 hedge accounting requirements pending the completion of the project on accounting for macro hedging. This decision was included in the new version of IFRS 9 published in November 2013.

<sup>6</sup> July 2013 Agenda Paper 5C

**Subsequent submissions<sup>7</sup>**

11. Subsequent to the comment letter analysis of the Impairment ED, participants at various outreach events provided more feedback on the reasons why a three-year implementation period is needed.
12. In addition, more letters have been submitted to the IASB after the comment period to further support why financial institutions will need three years from the date of the issuance of the final Standard to implement the expected credit loss requirements in IFRS 9.
13. The reasons provided can be summarised as follows:
  - (a) **model changes**: the proposed impairment model will involve the construction or significant adaptation of risk models for numerous portfolios within the scope of the requirements. It will also require the development and introduction of entirely new processes, such as systematically capturing significant increases in credit risk and the application of the appropriate forward-looking data to the measurement of the resulting lifetime expected credit losses, as well as significant system changes.
  - (b) **availability of information**: the availability of historical data and trend information is critical for assessing increases in credit risk over time and measuring expected credit losses. For many portfolios, this information will need to be collected or estimated for the first time. The incorporation of forward-looking information was emphasised as a particular area in which current systems will need to be upgraded. It is therefore vital that sufficient time is allowed for data to be collected and trend information to be developed in order to implement the new requirements.
  - (c) **parallel reporting**: because of the scale of changes to the credit risk management system and the model, a one-year parallel run period is required to perform systems changes and process dry runs to verify the reliability of the new models and the reporting systems. This time

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<sup>7</sup> This feedback was also presented as part of the November 2013 Agenda Paper 5F

is also needed to provide management with sufficient time to understand the assumptions, judgements and sensitivities involved in determining impairment allowances under the new requirements.

- (d) ***interaction with regulatory capital requirements***: constituents said that the interaction of IFRS 9 with the regulatory capital requirements is likely to be complex and that managing the impact on regulatory capital will be a key element of the implementation of IFRS 9 for all banks. Lead time would also assist regulators in understanding the accounting requirements and associated impact and to foresee any resulting changes needed to regulatory requirements.
- (e) ***interaction with other major regulatory reforms***: financial institutions are currently in the process of implementing a number of significant regulatory projects that involve demands on similar resources across risk and finance functions. All these projects are running concurrently and put a strain on the availability of resources that are needed to ensure the effective implementation of IFRS 9.
- (f) ***education of stakeholders***: time is needed to inform users of financial statements and other stakeholders of the accounting, regulatory capital and business impact before IFRS 9 becomes effective.

### ***Feedback on the Insurance Contracts Exposure Draft<sup>8</sup>***

14. Most respondents to the 2013 Insurance ED<sup>9</sup> commented that it would be ideal if the effective dates of the new Insurance contracts Standard and IFRS 9 were aligned. This is because it would avoid imposing two rounds of substantial accounting changes on entities that issue insurance contracts and on users of financial statements. In addition, they were concerned that the designations and assessments that an entity would make on initial application of IFRS 9 might not be the same as those that the entity would make if the new Insurance contracts Standard had also been effective.

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<sup>8</sup> This feedback was also presented as part of the January 2014 Agenda Paper 2A

<sup>9</sup> Exposure Draft 2013/7 *Insurance Contracts*

15. Those respondents stated that it is imperative that the IASB align the effective dates so that entities can implement IFRS 9 and the new Insurance contracts Standard at the same time. However, most constituents recognised that IFRS 9 should not be delayed only because of the new Insurance contracts Standard. Thus, if the dates cannot be aligned they suggested:
- (a) entities that will apply the new Insurance contracts Standard should be given an option to defer the application of IFRS 9 until the new Insurance contracts Standard is issued;
  - (b) entities that apply IFRS 9 before applying the new Insurance contracts Standard should be permitted an opportunity to revisit the accounting treatments for financial assets and to specifically reassess the business model in which the entity holds financial assets; or
  - (c) if the IASB decides to finalise IFRS 9 before finalising the new Insurance contracts Standard, it should delay the mandatory effective date of the Insurance contracts Standard so that it is at least three years after the mandatory effective date of IFRS 9, to avoid a situation in which entities have to make two fundamental changes in accounting within a short timeframe.
16. The response to the 2013 Insurance ED suggested that few entities were specifically concerned about the introduction of new accounting mismatches that may arise in the period in-between the application of IFRS 9 and the new Insurance contracts Standard. This may be because, in applying IFRS 4 *Insurance Contracts*:
- (a) entities that measure insurance contracts on a current basis would in any case be able to reduce accounting mismatches through the election of fair value options (FVO), in the same way as they do currently under IAS 39 *Financial Instruments: Recognition and Measurement*; and
  - (b) entities that measure insurance contracts on a locked-in basis already have extensive accounting mismatches, so the issue is only exacerbated for a short time and, therefore, they are prepared to explain the effect.

17. Some respondents to the Impairment ED and the Limited Amendments ED raised similar concerns and suggestions.

## Staff analysis

### ***Interaction with the new insurance contracts Standard***

18. Entities that will be applying the new insurance contracts Standard<sup>10</sup> face the following issues if they are required to implement IFRS 9 before they implement the new insurance contracts Standard:
- (a) an interim period in which the accounting for financial assets backing insurance contracts liabilities has changed (following the application of IFRS 9) while the accounting for insurance contracts liabilities remains unchanged (until the application of the new insurance contracts Standard), thereby giving rise to possible new accounting mismatches; and
  - (b) a change in insurance contracts accounting when applying the new insurance contracts Standard subsequent to implementing IFRS 9.

#### *New accounting mismatches in the interim period*

19. The insurance contracts project proposes a current value measurement for insurance contracts. In contrast, IFRS 4, the existing Standard, permits entities to continue to use ('grandfathers') diverse existing practices, including the measurement of insurance contracts based on locked-in assumptions. As a result, under the existing application of IFRS 4 and IAS 39, many entities report accounting mismatches in their financial statements when insurance contracts are measured based on locked-in assumptions and financial assets are measured at fair value.
20. The feedback on the 2013 Insurance ED urged the IASB to consider how to reduce those accounting mismatches when redeliberating its proposals for insurance contracts. However, even if the IASB is able to reduce accounting

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<sup>10</sup> This paper assumes that ultimately the IASB will finalise a current measurement-based insurance contracts liability regime. However, the proposals are still subject to deliberation.

mismatches in the new insurance contracts Standard, there is still a possibility that entities will suffer accounting mismatches in the period between the initial application of IFRS 9 and the application of the new insurance contracts Standard if they are not applied from the same date.

21. The change in accounting for financial assets as a result of applying IFRS 9 will depend on the particular assets that an insurer holds and the business models in which they are held.
22. In many cases the measurement of financial assets will not be changed by the application of IFRS 9. Thus no specific issues would arise simply due to the application of IFRS 9. For example, if a financial asset is measured at fair value through profit or loss (FVPL) in accordance with IAS 39, that same measurement would likely be required or allowed in accordance with IFRS 9. Similarly, for equity investments classified as available-for-sale (AFS) in accordance with IAS 39, an entity could elect to present changes in the fair value of the equity investment in other comprehensive income in accordance with IFRS 9 (although unlike AFS, recycling is not allowed for these instruments in IFRS 9)<sup>11</sup>.
23. It is also expected that the business model requiring measurement at fair value through other comprehensive income (FVOCI) will often be relevant to insurance entities and thus many simple debt investments classified as AFS would be measured in a similar manner when IFRS 9 is applied.<sup>12</sup>
24. The main cases in which the measurement of financial assets could change as a result of applying IFRS 9 are from the mandatory classification of simple debt investments based on the business model within which financial assets are held, and the removal of bifurcation which may result in some 'host' contracts being measured at FVPL<sup>13</sup>. It is expected that no issues will arise when simple debt instruments are mandatorily measured at amortised cost, because IFRS 9 would

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<sup>11</sup> This is available for equity investments unless they are held for trading. If they are held for trading then they would be measured at FVPL under IAS 39 as well.

<sup>12</sup> The measurement would be similar, but not identical, for example the new impairment model will be based on shortfalls in cash flows rather than market values as is the case today.

<sup>13</sup> In this case only the accounting for the host would change—the bifurcated derivative would already be measured at FVPL.



permit entities to apply the fair value option (FVO) to those instruments if the insurance liabilities are measured on a current value basis.

25. However, if entities use a locked-in basis for insurance contracts under IFRS 4 today, applying IFRS 9 before introducing a current measurement-based regime for insurance contracts could result in a mismatch in the interim period that would be addressed subsequently by the new insurance contracts Standard. This would be the case if:

- (a) a financial asset measured at amortised cost when applying IAS 39 is required by IFRS 9 to be measured at FVOCI (this measurement is more likely under IFRS 9 than under IAS 39 because it would be mandatory for simple debt investments that are held either to collect or sell) and currently the insurance contracts liability is not measured on a current value basis. In this case implementing IFRS 9 could introduce a measurement mismatch in OCI, but there would be no mismatch in profit or loss.
- (b) a financial asset measured at amortised cost or AFS when applying IAS 39 is required by IFRS 9 to be measured at FVPL and the insurance contracts liability is not measured on a current basis when applying IFRS 4. This could arise because of the business model within which the asset is managed (ie the asset is not managed in a ‘held to collect’ or ‘held to collect or sell’ business model), but is perhaps most likely to arise in respect of the *host* of a financial asset that is currently bifurcated under IAS 39 (ie the hybrid instrument does not satisfy the cash flow characteristics condition in IFRS 9).
- (c) equity investments classified as AFS when applying IAS 39, are required to be measured at FVPL by IFRS 9 and the insurance contract liability is not measured on a current basis when applying IFRS 4. In this case, the FVOCI presentation election in IFRS 9 is available on a temporary basis until the new insurance contracts Standard is applied (see paragraph 27).

26. As mentioned in paragraph 25, in some circumstances when the insurance contracts liability is not measured on a current basis, accounting mismatches will

be introduced in the period between the application of IFRS 9 and the application of a current measurement-based Insurance contracts Standard. Those accounting mismatches would be resolved when the new Insurance contracts Standard is implemented. Although IFRS 4 already permits entities to change their accounting policies for insurance contracts if the change results in financial statements that are more reliable and/or relevant, a more realistic approach would be to highlight any new accounting mismatches that arise during this period and resolve them through disclosure and/or non-GAAP measures. This can be done in a similar way to what insurers currently do for accounting mismatches that exists when applying IAS 39 and IFRS 4.

*Subsequent change in insurance contracts accounting after applying IFRS 9*

27. Additional accounting mismatches may arise as the insurance contracts proposals are finalised and the accounting for the insurance contracts liability is changed. However, the transition requirements in the 2013 Insurance ED proposed that, at the date of initial application of the new Insurance contracts Standards, entities are permitted, but not required:
- (a) to redesignate a financial asset as measured at FVPL under the FVO;  
and
  - (b) to designate or revoke a previous designation of an investment in equity instruments as at FVOCI.

Entities are also required to revoke previous designations of financial assets that are measured at FVPL under the FVO if the initial application of the new Insurance contracts Standard eliminates the accounting mismatch that lead to the previous designation.

28. If the IASB confirms that proposed transition relief, the effects of introducing a current measurement basis for insurance contracts liabilities, which are backed by financial assets that are not measured at FVPL, could be mitigated if the entity elects the FVO for the financial assets.
29. Furthermore, if the ability to revoke the designation of an equity investment as at FVOCI at the date of initial application of the new Insurance contracts Standard is

confirmed, an entity with equities that are currently classified as AFS under IAS 39 can temporarily designate such investments as at FVOCI (ie in the period between the application of IFRS 9 and the subsequent application of the new Insurance contracts Standard) if the entity does not want to measure such investments at FVPL because the insurance contracts liabilities are not measured on a current basis. When the entity applies the new insurance contracts Standard such designation can be revoked.

30. The staff also note that the IASB has previously considered whether to permit the reassessment of the business model condition in IFRS 9 when the new insurance contracts Standard is applied. However, the IASB rejected such an approach because the business model in which financial assets are held is a matter of fact that is evidenced through the way that financial assets are managed to realise cash flows—ie it is not an assertion. It is not expected that the way in which financial assets are managed would change as a result of a change in accounting requirements. However, the staff acknowledge that even though it may be unlikely, it is not impossible for a change in the business model to occur.
31. The reclassification requirements that have been confirmed in the redeliberations of the Limited Amendments ED<sup>14</sup> set an intentionally high standard for when a change in business model occurs. This includes the fact that the change in the business model must be demonstrable to external parties—the staff suggest that perhaps it should be considered whether this aspect of the conditions for reclassification could be reconsidered for the purposes of transition to the new insurance contracts Standard.
32. Furthermore, the staff note that some of the feedback received on the Limited Amendments ED relates to accounting for insurance contracts liabilities and the assets that specifically back those contracts rather than the accounting for financial assets more generally. One of the targeted areas of the 2013 Insurance ED is the proposal to present the effects of changes in discount rates in OCI rather than in profit or loss. In redeliberating the feedback received on the 2013 Insurance ED, consideration will be given to whether the IASB should proceed

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<sup>14</sup> Exposure Draft ED2012/4 *Classification and Measurement: Limited Amendments to IFRS 9* (Proposed amendments to IFRS 9 (2010))

with that proposal. That will include consideration of whether the accounting for insurance contracts should be modified to reflect the interaction with the accounting requirements for assets, including financial assets accounted for under IFRS 9 as amended by the Limited Amendments project.

*Possible approaches to address accounting mismatches if the effective dates are not aligned*

33. The main concern raised by respondents to the 2013 Insurance ED was the potential need to implement two significant system changes within a short period of time, ie one for IFRS 9 and another for the new insurance contracts Standard. They believed that doing so would make it challenging for them to explain their financial statements during the period of change and that it would increase their costs of communication if they needed to educate users of financial statements about the effect of IFRS 9 separately from the effect of the new insurance contracts Standard.
34. Paragraph 15 lists the recommendations made by constituents for possible ways to address any operational concerns if there is a difference in the mandatory effective dates of IFRS 9 and the new Insurance contracts Standard.
35. The staff do not think it is feasible to defer the application of IFRS 9 only for those entities that will apply the new Insurance contracts Standard. For example, simply deferring application for those who currently apply IFRS 4 would be very broad—for example, if a bank were to issue some insurance contracts they would qualify for deferral. The staff are of the view that this would be too wide because IFRS 4 is not an industry specific Standard. An alternative would be to try to define the scope of ‘insurance entities’ to which a deferred application of IFRS 9 would apply. The staff do not consider this to be viable approach given the difficulty of defining an insurance entity in a robust way that could be applied consistently from country to country and also because the IASB does not issue industry specific Standards.
36. In outreach some have suggested that the IASB should consider having different effective dates for the different phases of IFRS 9 such that the new impairment requirements (that are arguably the most urgent part of IFRS 9) would apply before the classification and measurement and the hedge accounting requirements.

This is viewed as being potentially helpful for insurers because it is the changes in the classification and measurement of financial assets that cause the greatest effect when considered in combination with the accounting for the insurance contracts liabilities.

37. The staff note however that this is not practical because of the close interaction between the impairment and classification and measurement requirements—the expected credit loss model has been designed to apply only to debt instruments and is based on looking at shortfalls in contractual cash flows that satisfy the ‘solely payments of principal and interest’ condition in IFRS 9. If it were applied in conjunction with IAS 39 the interaction with AFS debt (in which classification is not subject to the same contractual cash flow conditions and impairment is based on market values) and the fact that AFS equities are subject to impairment, it would require significant reworking and ‘unpicking’ of the requirements. This would also be inconsistent with the IASB’s decision to eliminate the phased implementation of IFRS 9 once the completed version of IFRS 9 is issued.<sup>15</sup>

### *Summary*

38. The staff think that the effect of dealing with the transition to the new insurance contracts requirements subsequent to applying IFRS 9 can be addressed through transition relief—so that ultimately insurers are not at a disadvantage as a result of applying IFRS 9 first (refer to paragraphs 27-32). The staff further consider that any discussion about potential transition relief for the initial application of the new Insurance contracts Standards should be dealt with when the insurance contracts proposals are redeliberated and finalised. Until that time it is not possible to determine what reliefs may or may not be necessary or appropriate because the ultimate interaction between the insurance contracts measurement and the financial asset requirements are not known.
39. However, it is the case that some temporary mismatches may arise as a result of applying IFRS 9 first that shows that from a financial reporting perspective it would be optimal to have the new insurance contracts requirements available

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<sup>15</sup> As confirmed at the January 2014 IASB meeting. Refer to Agenda Paper 6C.

when IFRS 9 becomes mandatorily effective, or at a minimum to ensure that any mismatch period is kept as short as possible.

### ***Mandatory effective date of IFRS 9***

40. The majority of respondents to the Impairment ED indicated that they would need three years to implement the proposed impairment requirements. However, some respondents qualified this by stating that the three-year implementation period commences when the final version of IFRS 9 has been issued. Others stated that they need three years from the completion of the redeliberations.
41. The redeliberations on the proposals in the Impairment ED and the Limited Amendments ED were substantively completed at the January 2014 meeting. The staff will be asking for permission to proceed the final IFRS 9 to ballot at this meeting.<sup>16</sup>
42. Based on the feedback received during the comment period (in response to Limited Amendments ED, the Impairment ED and the 2013 Insurance ED) and subsequently, the staff have identified two alternatives for the mandatory effective date of IFRS 9;
  - (a) annual periods starting on or after 1 January 2017; or
  - (b) annual periods starting on or after 1 January 2018.
43. Because of the interaction with the insurance Contracts project, the staff have considered an alternative mandatory effective date after 1 January 2018. However, we have rejected this on the basis that it would be inappropriate to delay the application of IFRS 9 for such a period for the reasons discussed in paragraphs 45–52.
44. The analysis below sets out the arguments for and against the two alternatives set out in paragraph 42.

#### ***Annual periods starting on or after 1 January 2017***

45. This alternative assumes that entities are able to begin the implementation of IFRS 9 based on the information in the Limited Amendments and Impairment

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<sup>16</sup> Refer to February 2014 Agenda Paper 5C and Agenda Paper 6B.

EDs along with the IASB's tentative decisions on impairment and classification and measurement that have been summarised in the *IASB Updates* since July 2013. An implementation period of three years from *completion of the redeliberations* would therefore result in a mandatory effective date of 1 January 2017.

46. Some entities also noted that an effective date of 1 January 2017 would enable their IFRS 9 implementation efforts to receive the necessary attention and focus to retain the current momentum and to ensure that budgeted funding remains available. These entities have said that this mandatory date would be achievable.
47. Some, including regulators in particular, have commented that the timely completion and implementation of the proposed expected credit loss impairment model is of utmost importance. It is arguably the most important part of the IASB's response to the financial crisis. Those respondents noted that although they believe that sufficient time should be allowed for the implementation of IFRS 9, they are concerned about any delay beyond a period that is strictly necessary. They therefore recommend a mandatory effective date of 1 January 2017.
48. The staff note that this alternative is not likely to address any of the concerns raised about the interaction with the new insurance contracts Standard because the IASB has previously indicated that the insurance contracts Standard would not be effective before 1 January 2018. Therefore, there would be a period of time during which entities would need to apply IFRS 9 and as a result accounting mismatches may arise that could ultimately be improved or resolved through the subsequent application of the new accounting for insurance contracts.
49. However, the staff also note that IFRS 9 is relevant to a broad range of entities other than insurers, and that it may not be appropriate to delay the application of IFRS 9 solely to mitigate the concerns of insurers since it would delay the benefits of improved financial reporting for a broad range of entities.

#### *Annual periods starting on or after 1 January 2018*

50. Many entities commented that they will only be able to commence their implementation efforts once the completed version of IFRS 9 is issued. Those entities noted that even when the redeliberations have been completed, the IASB's

decisions are tentative and thus are still subject to change (for example, the ultimate specific wording of the disclosure requirements could effect change in data requirements). A mandatory effective date of 1 January 2018 will therefore respond to these concerns by providing an implementation period that is more than three years if the final version of IFRS 9 is issued before 30 June 2014. Furthermore, while the IASB's plan is to issue IFRS 9 by the end of June 2014, a mandatory effective date of 1 January 2018 will provide some flexibility in the event that the final version of IFRS 9 is not issued by that time and without requiring the mandatory effective date to be revised.

51. As the Insurance Contracts project is still ongoing, it is not known what the mandatory effective date for the new insurance contracts Standard will be. However, the IASB has previously tentatively decided that it would allow approximately three years for entities to implement the new insurance contracts Standard and indicated that it would not be effective before 1 January 2018. The staff note that finalising the new insurance contracts Standard with a mandatory effective date before 1 January 2018 would be achieved only with an aggressive timetable for the Insurance Contracts project.
52. Nonetheless, a mandatory effective date of 1 January 2018 for IFRS 9 will give the IASB more opportunity to progress on its project on insurance contracts—the IASB aims to have that Standard at least *available for application* by this date. It would also minimise any period in which an insurer would potentially have to apply a combination of IFRS 9 accounting for financial assets and the existing insurance liability measurement prior to moving to the final combination of IFRS 9 accounting for financial assets and the new insurance contracts liability measurement. In addition, this would enable entities to have more clarity and certainty about the likely measurement of insurance contracts liabilities in accordance with the new insurance contracts Standard even if that Standard is not yet effective. This could, for example, enable them to make some system changes relevant to the insurance contracts requirements when they make changes to commence the new accounting for expected credit losses.
53. Obviously the disadvantage of this approach is that the benefits of applying IFRS 9, particularly moving to the new expected credit loss impairment model, will be delayed.



**Questions to the IASB**

54. The staff do not think that one of the alternatives for the mandatory effective date of IFRS 9 is more satisfactory than the other; they both have their advantages and drawbacks. The staff are not making a recommendation on either alternative, however we consider that the key criteria for determining the mandatory effective date for IFRS 9 are:
- (a) the need for improved financial reporting;
  - (b) the time needed by entities to implement the tentative impairment model to a high standard; and
  - (c) the interaction with other projects, particularly insurance contracts.
55. The IASB should determine a mandatory effective date that best addresses these criteria in the light of the pros and cons that each alternative presents. This will be driven by what aspects are considered most important as there are trade-offs between those aspects for each alternative.

**Question to the IASB**

Which alternative for the mandatory effective date of IFRS 9 does the IASB prefer?