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October 21, 2011

Mr. Hans Hoogervorst  
Chair  
International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH  
United Kingdom

**Re: Comment Letter on Mandatory Effective Date of IFRS 9**

Dear Mr. Hoogervorst,

CFA Institute<sup>1</sup>, in consultation with its Corporate Disclosure Policy Council (“CDPC”)<sup>2</sup>, appreciates the opportunity to comment on the International Accounting Standards Board’s (“IASB” or “Board”) Exposure Draft, *Mandatory Effective Date of IFRS 9* (the ED).

CFA Institute is comprised of more than 100,000 investment professional members, including portfolio managers, investment analysts, and advisors, worldwide. CFA Institute seeks to promote fair and transparent global capital markets, and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality.

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<sup>1</sup> With offices in Charlottesville, New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 107,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 137 countries, of whom nearly 96,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 135 member societies in 58 countries and territories.

<sup>2</sup> The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners’ perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

### **Executive Summary**

The IASB's intention, as stated in the Exposure Draft, is to allow entities to apply the guidance from all three phases of the Financial Instruments Project simultaneously. The Board is, therefore, proposing to defer the effective date of International Financial Reporting Standard 9 (IFRS 9), *Financial Instruments*, to reflect the IASB's extended timeline for completing the remaining phases (impairment and hedging) of the Financial Instruments Project. CFA Institute fully supports the proposal to defer the effective date of IFRS 9. We would go a step further and suggest a mandatory deferral of the effective date of IFRS 9 until a high-quality converged standard is achieved that provides decision-useful information to the investor community.

As a general rule, we do not support early adoption or relief from providing prior period comparative information due to the comparability issues arising from these transition approaches. IFRS 9, as currently written, does not require restating prior periods if an entity adopts IFRS 9 before 1 January 2012. We agree with the Board's proposal not to extend the relief of providing comparative information beyond what is currently permitted.

### **Reasons We Support Effective Date Deferral**

Our support for the deferral of the effective date of IFRS 9 emanates from several sources:

#### **Additional Time May Allow For Evaluation of Conceptual Consistency Across All Financial Instruments Project Phases**

As we stated in our comment letter dated 14 September 2009 on the Exposure Draft, *Financial Instruments: Classification and Measurement*, we believe that the IASB in its approach to overhauling IAS 39, *Financial Instruments: Recognition and Measurement*, has understated the interdependent nature of the three phases (classification and measurement, impairment, and hedge accounting) of the Financial Instruments Project. It is conceptually inconsistent to adopt the classification and measurement standard without considering the interconnectedness of the other phases (impairment and hedge accounting) of the overall project. We support the proposal to defer the effective date of IFRS 9 to align effective dates of the three phases, as noted below. However, we think it is of even greater importance that the Board use the additional time to review the conclusions reached in each of the phases for their conceptual soundness, consistency, and interconnectedness and to ensure the conclusions are of high quality and provide investors with relevant, decision-useful information upon which they can make capital allocation decisions.

The European Union (EU) has noted that its decision to defer its endorsement of IFRS 9 relates to its desire to holistically evaluate the conclusions reached in each of the three phases of the Financial Instruments Project. We agree with this reasoning and believe that, during any further IFRS 9 deferral and completion period, the Board should address investor and regulator concerns regarding the overall conceptual consistency of the Financial Instrument Project phases.<sup>3</sup>

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<sup>3</sup> Because the EU is unlikely to endorse IFRS 9 until the completion of all three phases of the project, while other jurisdictions continue to adopt or early adopt IFRS 9, further consistency and comparability concerns will only be exacerbated, further supporting the need for deferral.

*Deferral May Allow for Effective Date Consistency Across All Financial Instruments Project Phases*

We believe there should be a single effective date for all three phases of the Financial Instruments Project. The simultaneous adoption of the suite of amendments will provide investors with the greatest ability to analyze and understand, the impact of the changes to financial statements. Further, we recommend that the Board not only establish a deferral date for IFRS 9 per se, but reach agreement that all three phases of the Financial Instruments Project will be adopted simultaneously to ensure that further delays in completing the impairment and hedging phases will not result in the need for additional consultation on deferral of the classification and measurement standard. The Board should establish a single adoption date for all three phases, with comparative period information, rather than simply selecting a date in the future for adoption of the classification and measurement phases of the Financial Instruments Project.

*Deferral Presents an Opportunity to Seek Greater Convergence with the FASB*

The divergent approaches taken by the IASB and the Financial Accounting Standards Board ("FASB") (collectively, "the Boards") and the disparate timetables of the Financial Instruments Project established by the Boards are of concern to investors. We believe there is a need for a better coordinated and converged solution by the Boards to all three phases of the Financial Instruments Project – with particular emphasis on the need for greater convergence on classification and measurement and hedge accounting. Indeed, investors struggle to see how the divergent conclusions of the IASB and FASB proposals in these areas can both be seen as improvements in the decision-usefulness of this financial reporting standard.

A deferral in the effective date of IFRS 9 would allow the Boards to work together to provide a converged high-quality financial reporting solution so as to provide investors with relevant, comparable, decision-useful financial statements. We believe the Boards should use any additional time provided by a deferral to evaluate how greater consensus in views can be achieved.

*Allows Time to Address Matters Arising in Insurance Contracts Project*

Owing to the linkages between financial assets accounted for under IFRS 9 and insurance liabilities accounted for under the Insurance Project, we believe that the effective date of IFRS 9 should be deferred to coincide with adoption of the revised insurance accounting standard.

Further, a deferral will allow the Boards to consider whether there is conceptual consistency between the accounting for assets and liabilities within insurance entities. Presently, many within the insurance industry, including investors and analysts in the insurance sector, have expressed concerns regarding the decision-usefulness of the insurance entity financial statements resulting from combination of the asset and liability accounting models being proposed by the Boards. Deferral of IFRS 9 may result in the ability to address such concerns. Alignment of the asset and liability reporting models and effective dates will result in more meaningful information for investors.

*Allows for Consideration of Quality Concerns*

CFA Institute believes that the most important aspect of accounting reform is the development of high-quality standards. Our members have repeatedly stressed the importance of this point. The aforementioned issues raised in this comment letter, however, cause us to have great concerns with respect to the quality of the proposals. Deferral of the effective date would allow the Board the time needed to address these investor concerns over quality and ensure that the final standard is relevant, understandable, and of high quality so as to provide decision-useful information to investors. Only when those objectives are achieved should the complete financial instruments standard be issued, with a reasonable period to plan and effectuate transition.

*Provides Opportunity to Consider Need For Re-Exposure and Ensure Conceptual Consistency and Convergence*

The aforementioned issues raise questions regarding the need for re-exposure of IFRS 9 and joint re-exposure of the proposals with the FASB. Deferral of the classification and measurement aspects of IFRS 9 provides the Board with the time to collectively consider these issues and ascertain whether, in the aggregate, they represent sufficient support for reconsideration and re-exposure of certain aspects of classification and measurement aspects of IFRS 9.

*Provides for Collective Evaluation of Effective Dates for All New Standards*

As previously stated, we believe that there should be a single effective date for all three phases of the IASB's Financial Instruments Project. When selecting an effective date for the implementation of the complete financial instruments standard, we also urge the Board to consider the effective dates of other key IASB projects and the effective date of the FASB proposals on Financial Instruments.

We note that there are several other significant new standards being developed such as Revenue Recognition, Leases, and as already cited, Insurance. While investors are divided over whether a single date or a sequential approach towards adoption of new standards is desirable, we believe that, in this circumstance, a single date adoption would be beneficial given the interdependent nature of these standards. This would create only one period of discontinuity.

We also believe that the FASB and the IASB should require the same effective dates and transition methods for their respective proposals on Financial Instruments. Different effective dates would create even more challenging comparability issues between entities reporting under the two sets of standards.



### **The Importance of Comparative Financial Information**

CFA Institute believes that a fully retrospective approach provides investors with the most seamless transition method and preserves comparability between periods. This approach allows investors to ascertain the impact of a new standard on periods previously reported under the prior standard. In addition, we are opposed to allowing entities to early adopt new financial reporting standards. Allowing entities this option introduces further complexity for investors who rely on comparability in their analysis. Hence, with respect to IFRS 9, our preference would have been for a fully retrospective approach with no early adoption.

However, presently under IFRS 9, both early adoption<sup>4</sup> and limited relief from providing comparative information upon early adoption are already permitted. Therefore, as a least-bad option, we concur with the proposal that the Board should not change the current requirement in IFRS 9 for comparatives to be presented for entities that initially apply the standard for reporting periods beginning on or after 1 January 2012. That is to say, we would not want the period in which relief is given from providing comparative financial information to be extended beyond that currently allowed. Nor do we believe that, with a deferral of the effective date, such relief would be necessary as entities will have a longer time frame to implement IFRS 9.

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Thank you again for the opportunity to comment on the Exposure Draft. If you or your staff have questions or seek further elaboration of our views, please contact either Mohini Singh, ACA, by phone at +1.434.951.4882, or by e-mail at [mohini.singh@cfainstitute.org](mailto:mohini.singh@cfainstitute.org) or Sandra J. Peters, CPA, CFA by phone at +1.212.754.8350 or by email at [sandra.peters@cfainstitute.org](mailto:sandra.peters@cfainstitute.org).

Sincerely,

/s/Kurt N. Schacht  
Kurt N. Schacht, JD, CFA  
Managing Director  
Standards & Financial Markets Integrity Division  
CFA Institute

/s/ Gerald I. White  
Gerald I. White, CFA  
Chair  
Corporate Disclosure Policy Council

cc: Corporate Disclosure Policy Council

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<sup>4</sup> To the extent that some companies chose early adoption of IFRS 9 beginning in 2009 and the standard is not currently mandatory until 2013 – now proposed to be 2015 – there will be additional non-comparability between firms caused by this voluntary election option. Moreover, companies may early adopt either IFRS 9 (2009) or IFRS 9 (2010) further compounding the comparability issue. We do not believe that entities should be allowed to adopt different versions of IFRS 9. Adoption should be limited to the latest version of IFRS 9 (i.e. IFRS 9 (2010)).