



Accounting Standards Board

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Françoise Flores
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Belgium

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25 January 2011

Dear Françoise

EFRAG's Draft Comment Letter on IASB's Request for Views on Effective Dates and Transition Methods

This letter sets out the ASB's comments on the above Draft Comment Letter.

The ASB supports the IASB's attempts to consider the cumulative impacts of its proposed new IFRSs, and to gather evidence with a view to their implementation in the most cost effective manner. Other than in relation to early adoption of the proposed new standards the ASB is broadly in agreement with EFRAG's comments.

The ASB strongly supports permitting early adoption of all the proposed new standards. However, in contrast to the views expressed in EFRAG's draft comment letter, the ASB believes companies should be allowed to determine for themselves which standards they should apply for the first time, at the same time, rather than the IASB determining which standards must be early adopted together.

I have attached a copy of the ASB's letter to the IASB, setting out our views on each question.

If you wish to discuss our comments please contact Jenny Carter on 020 7492 2421, or I.

Yours sincerely

Roger Marshall
Chairman

DDI: 020 7492 2434

Email: r.marshall@frc-asb.org.uk



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Li Li Lian
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

25 January 2011

Dear Li Li

Request for Views on Effective Dates and Transition Methods

I am writing to set out the views of the UK Accounting Standards Board in response to the IASB's request for views on Effective Dates and Transition Methods.

The ASB supports the IASB's attempts to consider the cumulative impacts of its proposed new IFRSs, and to gather evidence with a view to their implementation in the most cost effective manner.

In overview, the ASB:

- supports a single effective date for the proposed new standards, not before 1 January 2015;
- strongly supports permitting early adoption of all the proposed new standards, and allowing companies to determine for themselves which standards they should apply for the first time, at the same time;
- believes high quality disclosures should be required for early adopters in order to ensure that users can continue to draw effective comparisons between companies during the transitional phase.

Our responses to the questions in the Request for Views are set out in the Appendix to this letter.

If you wish to discuss these comments please contact Jenny Carter on 020 7492 2421,
or I.

Yours sincerely

A handwritten signature in black ink that reads "Roger Marshall". The signature is written in a cursive style with a large, prominent 'M'.

Roger Marshall
Chairman

DDI: 020 7492 2434

Email: r.marshall@frc-asb.org.uk

Appendix: Responses to questions in the Request for Views on Effective Dates and Transition Methods

Background Information

Q1. Please describe the entity (or the individual) responding to this Request for Views. For example:

(a) Please state whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor or other user of financial statements (including regulators and standard-setters). Please also say whether you primarily prepare, use or audit financial information prepared in accordance with IFRSs, US GAAP or both.

(b) If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant measure), and whether you have securities registered on a securities exchange.

(c) If you are an auditor, please indicate the size of your firm and whether your practice focuses primarily on public entities, private entities or both.

(d) If you are an investor, creditor or other user of financial statements, please describe your job function (buy side/sell side/regulator/credit analyst/lending officer/standard-setter), your investment perspective (long, long/short, equity, or fixed income), and the industries or sectors you specialise in, if any.

(e) Please describe the degree to which each of the proposed new IFRSs is likely to affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors and creditors might explain the significance of the transactions to the particular industries or sectors they follow).

ASB response:

The ASB is the UK accounting standard-setter; it issues UK accounting standards and aims to influence the development of IFRS. It is one of the operating bodies of the Financial Reporting Council; the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. The ASB is not primarily a user of US GAAP.

The proposed new IFRSs are likely to affect all UK reporting entities, but in different ways, for example:

- For those reporting in accordance with EU-adopted IFRS, the impact will vary depending on the nature of the business;
- For those reporting in accordance with UK accounting standards, the ASB is currently consulting on a proposed new standard based on the IFRS for SMEs, therefore the impact on individual entities will depend not only on the nature of the business, but the extent to which the ASB reflects any subsequent changes to the IFRS for SMEs in its own standard (after following its own due process).

Preparing for transition to the new requirements

Q2. Focusing only on those projects included in the table in paragraph 18 of the Request for Views:

(a) Which of the proposals are likely to require more time to learn about the proposal, train personnel, plan for, and implement or otherwise adapt?

(b) What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

ASB response:

(a) The table below highlights those areas (✓) where the ASB believes the time to learn, train, plan for, and implement the proposals are likely to be significant.

Project	Transition method	Learn	Train	Plan	Implement
Consolidation	Limited retrospective	✓			✓
Fair value measurement	Prospective			✓	✓
Financial instruments (IFRS 9)	Retrospective			✓	✓
Insurance contracts	Limited retrospective	✓	✓	✓	✓
Joint arrangements	Limited retrospective				
Leases	Limited retrospective		✓	✓	✓
Post-employment benefits	Retrospective				
Presentation of other items of OCI	Retrospective				
Revenue from contracts with customers	Retrospective				

(b) The ASB has not conducted detailed cost analyses of the various proposals. However, the ASB believes there will often be a correlation between the time required and the cost of implementing proposals.

Q3. Do you foresee other effects on the broader financial reporting system arising from these new IFRSs? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

ASB response:

In the UK profit or loss, and other data from the financial statements, is often used as a starting point for determining taxable profits, distributable profits and other special purpose information, such as debt covenant reporting.

The broader effects of changes in financial information from these new IFRSs will vary, depending on how close the existing link between accounting and other uses of financial data and whether that link will be maintained. For example, the ASB has been informed by Her Majesty's Revenue and Customs (HMRC) that the proposed new Leases standard will have significant implications for UK tax law. More detail on these comments is included in our response letter to ED 2010/9. HMRC has also made further information available on its website, for example, <http://www.hmrc.gov.uk/budget-updates/autumn-tax/tiin1750.htm>.

In some cases preparers may chose to reconcile back to the financial information that would have been reported on the 'old' basis, which can increase costs.

Q4. Do you agree with the transition method as proposed for each project, when considered in the context of a broad implementation plan covering all the new requirements? If not, what changes would you recommend, and why? In particular, please explain the primary advantages of your recommended changes and their effect on the cost of adapting to the new reporting requirements.

ASB response:

In our response letters on individual Exposure Drafts the ASB has commented, as it sees fit, on the detailed transitional arrangements, and does not propose to repeat those comments here.

Here we confine ourselves to considering whether an approach to transition based on the categories above (ie retrospective, limited retrospective or prospective) appears suitable. Regardless of whether standards are being introduced at the same

time, or individually, the ASB believes the transitional arrangements should be determined based on the content of each individual standard and the costs and benefits of requiring retrospective application (or not), not how many changes are happening at once. Broadly the ASB is content with the transition method being applied to each project.

Effective dates for the new requirements and early adoption

Q5. *In thinking about an overall implementation plan covering all of the standards that are the subject of this Request for Views:*

(a) Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimise the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimising disruption, or other synergistic benefits).

(b) Under a single date approach and assuming the projects noted in the introduction are completed by June 2011, what should the mandatory effective date be and why?

(c) Under the sequential approach, how should the new IFRSs be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new IFRSs.

(d) Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

ASB response:

Some of the proposed new standards will be pervasive throughout financial reporting and, for some companies, may need significant time and/or resources to implement. There will also be impacts for users, as the changes will create a discontinuity in results and financial position, and a potential lack of clarity for the market would ensue if companies adopt the proposed new standards at different times.

It is worth considering the overall resources finance departments might have available, and their capacity to make multiple changes in one year. Whilst the overall costs of implementation can usually be minimised by applying new standards at the same time, this is not necessarily the case where, for example, temporary staff need to be employed to achieve implementation in a single reporting

period. Being able to apply some new standards in another year, might actually reduce the overall costs of implementation (and retain knowledge within the company).

The ASB would support a single effective date for the proposed new standards, subject to early adoption being permitted.

The advantages of a single effective date include:

- Economies of scale in relation to training costs, systems changes etc.
- A single discontinuity in comparatives and a stable base going forward.

However, some of the advantages of a single effective date can be lost if the standards are subject to amendments or revisions in short order.

In our comment letter on ED 2009/12 *Financial instruments: Amortised cost and impairment* we noted that, at that time, it was not possible to conclude on whether a three-year lead time between issuing the standard and its effective date would be sufficient. On the basis that we favour a single effective date, and using the IASB's assumption that all projects will be completed by June 2011, we conclude that an effective date before June 2014 is unrealistic. Given that, in the UK at least, December is a popular financial reporting date, we would suggest 1 January 2015 might be appropriate. However the IASB will need to keep this under review as it completes the projects, both in terms of whether any overruns in the timetable might have eroded the lead time, but also whether the final requirements of the new standards suggest that a greater lead time is required. The ASB believes that successful implementation of the proposed new standards, across all types of business, will, in part, depend on a sufficiently long lead-time between the issue of the standards and the effective date.

Q6. Should the IASB give entities the option of adopting some or all of the new IFRSs before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

ASB response:

In general, the ASB believes that early adoption should be permitted as it results in the benefits of the new, improved, requirements being available earlier.

Although there may be arguments for requiring certain of the proposed new IFRSs to be adopted at the same time, the ASB believes that the benefits of this will vary

depending on nature of a company's business. Therefore the ASB believes companies should be strongly encouraged to consider early adoption and should be permitted to make their own [cost and benefit] assessment of whether to adopt other new standards for the first time, at the same time. The IASB should not dictate which of the proposed new standards should be adopted together.

If early adoption is permitted, it will 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.

International convergence considerations

Q7. Do you agree that the IASB and FASB should require the same effective dates and transition methods for their comparable standards? Why or why not?

ASB response:

Global convergence is better achieved if IASB and FASB require consistent effective dates and transition methods. However, the implementation considerations of those not yet applying IFRS should not take precedence where it might be to the detriment of those already applying IFRS, or using financial statements prepared in accordance with IFRS.

Considerations for first-time adopters of IFRSs

Q8. Should the IASB permit different adoption dates and early adoption requirements for first-time adopters of IFRSs? Why, or why not? If yes, what should those different adoption requirements be, and why?

ASB response:

If the IASB permits early adoption of the proposed new IFRSs there should be no need to consider first-time adopters of IFRS further.

If the IASB does not permit general early adoption of the proposed new IFRSs, there would be a case for early adoption for first-time adopters in order to limit the need for consecutive changes in financial reporting, after first-time adoption.