

28 October 2011

International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH  
United Kingdom

Dear Sir / Madam

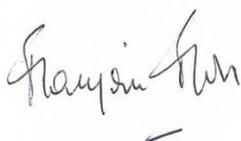
**Re: Exposure Draft *Mandatory Effective Date of IFRS 9***

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft *Mandatory Effective Date of IFRS 9* that the IASB issued on 4 August 2011. This letter is submitted in EFRAG's capacity of contributing to IASB's due process and does not necessarily indicate the conclusions that would be reached in its capacity as advisor to the European Commission on endorsement of the definitive standard in the European Union and European Economic Area.

Our detailed comments are set out in the appendix to this letter. To summarise, EFRAG believes that, rather than setting a fixed effective date, it would be more appropriate to allow entities at least three years to implement IFRS 9 after the completion of all phases of IFRS 9 and the standard on insurance contracts. The IASB should reconsider the transitional requirements of IFRS 9 to ensure that the restated comparative information is meaningful. If the IASB were to conclude that it is *not* possible to revise the transitional requirements such that the comparative information is meaningful, we would recommend that relief from restating comparative information be granted.

If you wish to discuss our comments further, please do not hesitate to contact Marc Labat or me.

Yours sincerely,



Françoise Flores  
EFRAG, Chairman

## Appendix

### Question 1

**The Board proposes to amend IFRS 9 (2009) and IFRS 9 (2010) so that entities would be required to apply them for annual periods beginning on or after 1 January 2015. Do you agree? Why or why not? If not, what alternative do you propose?**

### EFRAG's response

**EFRAG welcomes the Board's decision to postpone the effective date of IFRS 9. However, we believe that, rather than setting a fixed effective date, it would be more appropriate to allow entities at least three years, from the date on which both the last phase of IFRS 9 and the new standard on insurance contracts have been published, to implement IFRS 9.**

- 1 In our comment letter of 31 January 2011 on the Request for Views on *Effective Dates and Transition Methods*, we noted that the standards on Financial Instruments, Revenue from Contracts with Customers, Leases and Insurance Contracts are the cornerstones of financial reporting under IFRSs, in the sense that they have a significant impact on the way companies report the performance of their core business, they affect a large number of items and transactions, and their scopes of application are closely related. If these standards had been completed by June 2011, we believed that their collective effective date could have been 1 January 2015, at the earliest, for the following reasons:
  - (i) these standards have a pervasive effect on the financial statements and would need to be applied largely retrospectively;
  - (ii) collecting comparative information under the new standards would often require companies to assess facts and make the required judgements at the time that the underlying transactions occur, as there may not be a straightforward way to convert information from the old to the new standard; and
  - (iii) in many jurisdictions, the new standards would need to be translated and endorsed or may require amendments to the legal or tax framework.'
- 2 We noted in that comment letter that if some of those standards were to be completed after June 2011, this might require an effective date later than 1 January 2015. According to the IASB's work plan (as published on 30 September 2011), completion of the projects has been delayed to late 2011 for most of the financial instruments projects and (possibly) to 2012 for the projects on macro hedging, revenue recognition, leases and insurance contracts.
- 3 EFRAG welcomes the Board's decision to postpone the effective date of IFRS 9 *Financial Instruments*. However, we consider that the revised effective date of 1 January 2015 provides insufficient relief because:
  - (a) significant parts of IFRS 9 (e.g. impairment, general hedging and macro hedging) remain to be completed; and
  - (b) the standard on insurance contracts remains to be completed.

This means that until the above mentioned standards are completed, it is not possible for an entity to make informed decisions about its accounting policies, classification of financial instruments and hedge designation. In particular, entities with insurance contracts need to be able to make accounting policy decisions and designations for

financial instruments and insurance contract simultaneously to avoid unnecessary accounting mismatches that might reduce the relevance of their financial statements. Hence, it is necessary to ensure alignment of the effective dates and transitional provisions of these standards.

- 4 An appropriate amount lead time is needed to do a proper field-test of the requirements and to evaluate the impacts of the changes resulting from the remaining phases of the financial instruments project. This lead time should be commensurate to the complexity of the final standard, to its operationality and its expected impacts on information systems.
- 5 In the context of the above, we believe that, rather than setting a fixed effective date, it would be more appropriate to allow entities at least three years to implement IFRS 9 after the completion of all phases of IFRS 9 and the standard on insurance contracts.

#### **Question 2**

**The Board proposes not to change the requirement in IFRS 9 for comparatives to be presented for entities that initially apply IFRS 9 for reporting periods beginning on or after 1 January 2012. Do you agree? Why or why not? If not, what alternative do you propose?**

#### **EFrag's response**

**EFrag recommends that the IASB reconsider the transitional requirements of IFRS 9.**

**We believe that restatement of comparative information in the first year of application of IFRS 9 is appropriate, provided that such comparative information is meaningful. If that is not the case, we would recommend that relief from restating comparative information be granted.**

- 6 In principle, EFRAG would agree with the decision to confirm the requirements in IFRS 9 for comparatives to be presented by entities that initially apply IFRS 9 for reporting periods beginning on or after 1 January 2012. Comparative information is important for users. We believe that fundamental changes to financial reporting, such as those resulting from the adoption of IFRS 9, should be implemented in a way that causes minimum disruption for users.
- 7 To make the requirement for comparative information under IFRS 9 meaningful, we would recommend the following:
  - (a) The effective date of the standard should be at least three years, from the date on which both the last phase of IFRS 9 and the new standard on insurance contracts have been published, which would enable entities to collect information contemporaneously; and
  - (b) The various phases of IFRS 9 contain a mix of retrospective, partially retrospective and prospective transitional provisions, which results in comparative information that is not truly comparable. Therefore, the IASB should consider the overall impact of all transitional requirements that might reduce comparability, for example:
    - (i) financial instruments derecognised under IFRS 9 would be accounted for under IAS 39 in the comparative period;

- (ii) the classification of financial assets in the comparative period is based on the circumstances at the beginning of the current period rather than the beginning of the comparative period;
- (iii) hedge accounting is expected to require prospective application; and
- (iv) the risk of hindsight might make retrospective application of the impairment phase difficult.

If the IASB were to conclude that it is *not* possible to revise the transitional requirements such that the comparative information is meaningful, we would recommend that relief from restating comparative information be granted.