

## Issues Paper – IASB Request for Views on Effective Dates and Transition Methods

### INTRODUCTION

1. The intention of this paper is to identify issues relating to the IASB’s Request for Views on Effective Dates and Transition Methods. The IASB’s objective in publishing its Request for Views is to gather views from interested parties about the time and effort that will be involved in adapting to the several new International Financial Reporting Standards (IFRSs) it expects to issue next year and about when those IFRSs should become effective. This information will help the IASB to develop an implementation plan for those new IFRSs.

### SCOPE OF THIS PAPER

2. Rather than specifically addressing the questions in the Request for Views, this paper focuses on the interrelationships between the relevant topics and the time needed to adopt the new requirements in each Exposure Draft. The specific nature of the transition requirements in each ED has been, or is being, addressed in our specific comment letters on the EDs.
3. The following table lists the projects that are the subject of the IASB Request for Views together with the other projects on which the IASB seeks comment. In the process of liaising with Australian constituents for the purpose of commenting on the EDs noted in the table below, staff have gathered views on the extent to which the proposals are interrelated and their likely level of complexity in terms of implementation issues.

**Table 1**

<b>Projects that are subject of this Request for Views</b>		
<b>Project</b>	<b>Status</b>	<b>ED</b>
Fair value measurement	Exposure drafts published May 2009 and June 2010	ED 199
Financial instruments (IFRS 9)	Phase 1 (Classification and measurement) will be completed in October 2010. Phase 2 (Impairment Methodology) and Phase 3 (Hedging) are under development. The Phase 2 exposure draft was published in November 2009, and the Phase 3 exposure draft will be published in Q4 2010.	ED 189 & ED 184
Revenue from contracts with customers	Exposure draft published June 2010	ED 198
Insurance contracts	Exposure draft published July 2010	ED 201
Leases	Exposure draft published August 2010	ED 202R
Post-employment benefits – Defined benefit plans – Proposed amendments to IAS 19	Exposure draft published April 2010	

<b>Project</b>	<b>Status</b>	<b>ED</b>
Presentation of items other comprehensive income – Proposed amendments to IAS 1	Exposure draft published May 2010	ED 197
Consolidation <sup>1</sup>	Final standard to be published in Quarter 4	ED 171
Joint Arrangements <sup>1</sup>	Final standard to be published in Quarter 4	ED 157

4. As a reminder, the table in Appendix A to this paper provides a snapshot of the relevant proposed new or revised IFRSs.

### **SAME EFFECTIVE DATES FOR IFRS 4 AND IFRS 9**

5. AASB staff consider the revised IFRS on insurance contracts and IFRS 9 *Financial Instruments* should have the same effective dates on the basis there are measurement choices that insurers may want to take under IFRS 9 at the same time as adopting the revised IFRS 4.
6. Staff note the following ‘possible proposal’ in IASB ED/2010/8 Insurance Contracts:

BC115 The Board will consider in developing the new IFRS 4 whether to provide an option for insurers to reclassify some or all financial assets when they first apply the new IFRS 4. This would be similar to the option in paragraph 45 of IFRS 4 *Insurance Contracts* and paragraph D4 of IFRS 1. The Board included such an option in IFRS 4 for reasons that may be equally valid for phase II.

We question whether it would be appropriate to potentially have two transition dates for IFRS 9 – one relating to an entity’s insurance activities and one for its other activities.

7. Staff consider that a better option would be to ensure that the transition dates for the revised IFRS 4 and IFRS 9 are the same, even if that means delaying the transition date of IFRS 9 beyond 1 January 2013, and ensuring that early adoption is available under both Standards.

**Question 1 to the Board:** Do Board members agree that IFRS 9 and IFRS 4 should have the same effective dates, even if that means delaying the transition date of IFRS 9 beyond 1 January 2013?

### **SAME EFFECTIVE DATES FOR LEASES AND REVENUE**

8. Staff consider there to be a number of links between the IASB’s leases and revenue proposals. Under the leases proposals some contracts will need to be apportioned between lease and service elements, with the service contract element being accounted for using the revenue recognition and measurement requirements. Furthermore, the lease proposals may lead entities to identify a sale of property, plant and equipment in situations where they would not previously have done so, and those sales would need to be accounted for using the revenue recognition and measurement requirements.

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<sup>1</sup> In relation to this project, the IASB seeks comments only in respect of the cost of implementation rather than the overall implementation plan.

9. Accordingly, staff consider the new IFRSs arising from the IASB's projects on Revenue Recognition from Contracts with Customers and Leases should have the same effective dates.

**Question 2 to the Board:** Do Board members agree that the new IFRSs on Revenue and Leases should have the same effective dates?

## **TIMING OF EFFECTIVE DATES FOR LEASES AND REVENUE**

10. In the course of liaising with constituents about the lease and revenue proposals, entities with a leases that would currently be classified as operating leases have commented that they would need considerable time to put in place the information systems necessary to develop or update information systems, and train staff.

**Question 3 to the Board:** Do Board members agree that the effective date for the new IFRS on Leases (and therefore the new IFRS on Revenue) should be at least 1 January 2014, assuming the Standards are issued by June 2011?

## **TIMING OF EFFECTIVE DATE FOR IFRS 9**

11. In the course of liaising with constituents about the proposals for replacing IAS 39, financial institutions, in particular, have commented that they would need considerable time to put in place the information systems necessary. This reaction was mainly based on the expected loss model proposals, which may change significantly. The hedging proposals are also a largely unknown quantity at this stage.
12. Notwithstanding the uncertainty around the final outcomes, in the context of the types of changes that the IASB has proposed to financial instrument accounting so far, the AASB staff consider it likely that entities' information systems will be impacted significantly.

**Question 4 to the Board:** Do Board members agree that the effective date for IFRS 9s should be at least 1 January 2014, assuming the Standard is issued by June 2011?

## **EARLY ADOPTION OF NEW OR REVISED IFRSs**

13. AASB staff think the IASB should allow early adoption of the new or revised IFRSs so that entities can implement improved financial reporting as soon as they are ready and able. Staff consider that the benefits of early adoption are likely to be greater than the costs of impaired comparability across entities because of some entities early adopting the new or revised IFRSs.

**Question 5 to the Board:** Do Board members agree that the AASB should support permitting the early adoption of the new or revised IFRSs because these IFRSs improve financial reporting?

**APPENDIX A**

<b>Project</b>	<b>Nature of the proposals</b>
Consolidation	Definition of control and disclosures about structured entities.
Fair value measurement	Disclosure requirements related to level 3 fair value measurements.
Financial instruments (IFRS 9)	Recognition, measurement, classification and disclosure requirements relating to financial instruments.
Insurance contracts	Recognition, measurement and disclosure requirements relating to insurance contracts.
Joint Arrangements	Recognition, measurement and disclosure of joint arrangements.
Leases	Recognition, measurement, presentation and disclosure of leases.
Post-employment benefits – Defined benefit plans – Proposed amendments to IAS 19	Recognition and presentation of defined benefit obligations and obligations for other long-term employee benefits.
Presentation of items other comprehensive income – Proposed amendments to IAS 1	Presentation of other comprehensive income.
Revenue from contracts with customers	Recognition, measurement and disclosure of revenue and related costs from contracts with customers.