Australian Government

Australian Accounting Standards Board

Level 7, 600 Bourke Street
MELBOURNE VIC 3000
Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600
Facsimile: (03)9617 7608

27 January 2011

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear David

Request for Views on Effective Dates and Transition Methods

The Australian Accounting Standards Board is pleased to provide its comments on the Request for Views on *Effective Dates and Transition Methods* that was issued by the IASB on 19 October 2010. In formulating its comments, the AASB sought and considered the views of constituents. The comment letters received are published on the AASB's website. The AASB has also provided its comments on the specific transition requirements proposed in each Exposure Draft that is the subject of this Request for Views.

As a general matter, the AASB supports a single date approach, following an appropriate implementation period to maintain comparability between annual reporting periods. The AASB considers that, the new or revised IFRSs which are the subject of this Request for Views should have a common effective date of 1 January 2014. A later date may lead some jurisdictions to postpone their transition to IFRSs to avoid the duplication of effort relating to information systems and education.

The AASB is also of the view that the current meaning of first-time adoption should remain.

The AASB considers that early adoption should be allowed for each individual abovementioned IFRS in the absence of correlating issues among those IFRSs. Specifically, the AASB considers that the revised IFRS on leases should not be able to be adopted before the revised IFRS on revenue, and the IFRS on insurance should not able to be adopted before IFRS 9 *Financial Instruments*. We acknowledge that this approach could delay the transition date for IFRS 9 but this is preferred to having two transition dates for IFRS 9.

The AASB's detailed responses to the specific questions accompanying the Request for Views are attached as Appendix A.

If you have any questions regarding this submission, please contact me, Angus Thomson (athomson@aasb.gov.au) or Latif Oylan (loylan@aasb.gov.au).

Yours sincerely

K M. Stevenson

Kevin M. Stevenson
Chairman and CEO

AASB Comments on IASB Request for Views on *Effective Dates and Transition Methods*

Specific Matters for Comment

The AASB provides the following comments on the questions in IASB Request for Views on *Effective Dates and Transition Methods.*

> **Question 1**
>
> 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).

(a) The Australian Accounting Standards Board (AASB) is an independent national accounting standard-setter.

The AASB is committed to developing, in the public interest, a single set of high quality, understandable accounting standards that require transparent and comparable information in general purpose financial statements.

> **Question 2**
>
> Focusing only on those projects included in the table in paragraph 18 above:
>
> (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?

Within the Australian financial reporting environment, the AASB is of the view that the proposals in relation to Financial Instruments (IFRS 9) and Revenue from Contracts with Customers are likely to require more time to implement and adapt compared to other projects. This is because:

(a) the proposals on financial instruments would be substantive changes from the existing requirements in relation to recognition, measurement and classification with likely considerable implications for information systems; and

(b) the new revenue recognition proposals introduce a new model which is significantly different from the current model in many areas including the comparability of contracts, which may require substantial changes to information systems.

Question 3

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?

In terms of leases, there is already a difference between the taxation treatment (expense lease payments) and finance lease accounting. However, the proposals to require the capitalisation of more leases will widen that difference and may mean that some Australian entities that presently have one information system for leases will need to create another information system.

Australian law includes an election for corporate taxpayers to have the taxation of financial arrangements assessed on the same basis as its GAAP. The changes in accounting for financial instruments under IFRS 9 may cause some entities to change their election and may also cause the Australian government to review its existing requirements.

Changed prudential reporting requirements for financial institutions are to be phased in over the next four years. It may be helpful if entities are able to time the introduction of IFRS 9 to coincide with those changed prudential reporting requirements to minimise the costs involved.

The new IFRSs may also conflict with statistical reporting in Australia. Australian federal, state and territory governments are required to apply a domestic Standard (AASB 1049 *Whole of Government and General Government Sector Financial Reporting*) which requires jurisdictions to present harmonised information under GAAP and Government Finance Statistics (GFS). These new or revised IFRSs may create potential convergence differences between GAAP and GFS that would need to reconciled.

Question 4

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.

We generally agree with the transition methods proposed, however we recommend the following changes:

(a) The transition method applied to revenue and leases should be the same and both should have the same transition date to ease the burden of transition for entities that have contracts with material lease and service components. Although the AASB generally supports retrospective application we understand it may be difficult in the following circumstances:
  (i) where an entity has long term contracts;
  (ii) contracts with multiple performance obligations; and
  (iii) contracts with significant variable consideration.

(b) Entities should be permitted to determine for themselves whether retrospective application of the replacement Standard for IFRS 4 *Insurance Contracts* is impracticable in accordance with the relevant principles in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. If the IASB wishes to depart from the current requirements under IAS 8 it should justify this position. The AASB considers there would be many entities with long-term insurance liabilities that would be able to retrospectively apply the proposed model without the use of hindsight.

Question 5

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.

The AASB prefers the single date approach because it would minimise the costs associated with training staff and be a better option to ensure consistency among entities. This approach would require entities to change their systems only once for all of the relevant IFRSs compared to an approach where information systems may need to be updated repeatedly. The costs associated with information systems connected with the proposals on impairment of financial assets are a major concern for the AASB. Based on the presumption that the new requirements would be expected to result in improvements to financial reporting, that single date should be as soon as practicable.

On balance, under a single date approach, the AASB supports the mandatory effective date of I January 2014 to give preparers, auditors, regulators, users sufficient time to prepare for adoption. The AASB is of the view that a later date may lead some jurisdictions to postpone their transition to IFRSs to avoid the duplication of effort relating to information systems and education.

Question 6

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)?

The AASB is of the view that early adoption should be allowed for each individual IFRS basis in the absence of correlating issues among those IFRSs. The AASB considers that the time of adoption of the revised IFRS on leases and the revised IFRS on revenue should be the same because both deal with proposals relevant to contracts with multiple element contracts and revenue recognition. Also, IFRS 9 should be paired with insurance contracts because there are measurement choices that insurers may want to take under IFRS 9 at the same time as adopting the revised IFRS 4 to reduce or eliminate accounting mismatches and minimise the disruption from transition for users of the information.

The AASB also considers that the proposed IFRSs on consolidation and joint arrangements should be adopted simultaneously because they both impact on the scope and composition of an entity.

The AASB further considers that entities using the OCI option under the proposed IFRS on post-employment benefits or under IFRS 9 in respect of equity investments should be required to simultaneously adopt the proposed IFRS on presentation of items of OCI.

Question 7

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?

The IASB should place priority on consistency and cost-benefit considerations within the IFRS environment. However, the AASB agrees that the IASB and FASB should seek to require the same effective dates and transitions in the interests of global harmonisation.

Question 8

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?

The AASB is of the view that the current meaning of first-time adoption should remain – that is, when entities can make an explicit and unreserved statements of compliance with IFRSs. Furthermore, the AASB considers that all the requirements and relief relevant to first-time adoption should be incorporated in IFRS 1 *First-time Adoption of International Financial Reporting Standards.*