



To:	AASB members	Date:	22 August 2011
From:	Christina Ng	Agenda Item:	9.3
Subject:	Mandatory Effective Date of IFRS 9	File:	

Action

Review the staff analysis with a view to providing direction on finalising the AASB's submission to the IASB on Exposure Draft ED/2011/3 *Mandatory Effective Date of IFRS 9* that is due for comment by 21 October 2011.

Staff recommendation

- Staff recommend:
 - to agree with the change in mandatory effective date of IFRS 9 from 1 January 2013 to 1 January 2015;
 - that the IFRS 9 relief to restate comparatives be extended to entities early adopting IFRS 9 for annual reporting periods beginning beyond 1 January 2012; and
 - commenting that IFRS 9 should be issued only once more rather than in further stages.

Background

- In August 2011, the IASB published an ED/2011/3 seeking comments on the mandatory effective date of IFRS 9 by 21 October 2011. The AASB issued ED 215 [Agenda paper 9.4] incorporating the ED/2011/3 with a comment date of 7 October 2011. The AASB received one comment letter [Agenda paper 9.5] by the time of preparing this memorandum, and those views have been incorporated in staff's analysis.
- The IASB issued ED/2011/3 because of the extension of its time line for completion of the remaining phases of the project to replace IAS 39 and the Insurance Contracts project beyond June 2011, which was the original completion date and the basis for IFRS 9 to be mandatorily effective by 1 January 2013.
- In addition, the IASB considered constituents' views since the publication of IFRS 9 (2009) and IFRS 9 (2010), including responses to the *Request for Views on Effective Dates and Transition Methods* (issued in October 2010), and comments made during various outreach sessions on the project to replace IAS 39. The IASB has also always intended to allow

entities to apply the guidance from all phases of the project to replace IAS 39 at the same time while providing appropriate implementation time before the mandatory application date [paragraphs BC1 and BC2 of ED/2011/3].

Staff analysis

Should the mandatory effective date of IFRS 9 be changed from 1 January 2013 to 1 January 2015?

5. AASB staff agree with the reasoning in paragraphs BC1 and BC2 of ED/2011/3 and hence, support the deferral of IFRS 9's mandatory effective date beyond 1 January 2013. Staff consider the mandatory effective date should be dependent on the completion date of the project to revise IAS 39 as a whole and the Insurance Contracts project to give preparers sufficient time to prepare for adoption. Therefore, the IASB should continue to revisit its decision on IFRS 9's mandatory effective date when the projects are completed.
6. The staff support for change in mandatory effective date is consistent with the views expressed in the one comment letter received so far.

Question 1 to the Board

Do you agree with staff's recommendations in paragraph 5?

Should relief in restating comparatives be extended to entities early adopting IFRS 9 for annual reporting periods beginning on or after 1 January 2012?

7. IFRS 9 (2009) and IFRS 9 (2010) were published with comparative restatement relief for entities that early adopt the Standard for annual reporting periods beginning on or before 1 January 2012 [paragraphs 8.2.12 of IFRS 9 (2009) and 7.2.14 of IFRS 9 (2010)]. Should the mandatory effective date change to 1 January 2015, ED/2011/3 proposes not to change the comparative restatement relief in IFRS 9 (2009) and IFRS 9 (2010), in that an entity that early adopts the Standard for annual reporting periods beginning on or after 1 January 2012 would be required to restate comparatives when initially applying IFRS 9.
8. When IFRS 9 (2009) and IFRS 9 (2010) were published, the IASB's rationale for providing a relief for restating comparatives was that "waiving the requirement to restate comparatives strikes a balance between the conceptually preferable method of full retrospective application (as stated in IAS 8) and the practicability of adopting the new classification model within a short time frame. However, the IASB noted that those practicability considerations would be less applicable for entities that adopted outside a short time frame, and therefore restated comparative information was required in an entity adopts IFRS 9 for annual reporting periods beginning on or after 1 January 2012. The relief was provided to enable entities to apply IFRS 9 soon after it was issued, hence its limited term" [paragraph B4 of ED/2011/3].
9. AASB staff acknowledge the IASB's rationale for not extending the relief for restating comparatives to annual reporting periods beginning on or after 1 January 2012. However, staff consider that an issue with replacing IAS 39 on a piecemeal basis is the cross-cutting

matters between phases of the project that have been finalised and those that are underway. Entities are unable to predict what would be the outcomes of the latter phases of the project and as such, they prefer not to early adopt the earlier phases. For example, an entity's decision to measure its hybrid asset contracts at fair value or amortised cost may depend on the IASB's decisions made with regard to hedging requirements. Therefore, the IASB's rationale for providing comparative restatement relief should still hold for those entities that might choose to early adopt IFRS 9 as a whole when all the phases of the project are complete.

10. Consistent with constituent views, AASB staff do not support the IASB's proposal not to change the requirement in IFRS 9 (2009) and IFRS 9 (2010) for comparatives to be presented for entities that initially apply IFRS 9 for annual reporting periods beginning on or after 1 January 2012. Instead, AASB staff consider the comparative restatement relief should be provided as long as the entity early adopts IFRS 9 as a whole (not on a piecemeal basis) once all the phases of the project are complete. Accordingly, if the mandatory application date is extended to 1 January 2015, the comparative restatement relief should be extended to annual reporting periods beginning on or before 1 January 2014.

Question 2 to the Board

Do you agree with staff's recommendations in paragraph 10?

Should IFRS 9 continue to be reissued in further stages or reissued only once more?

11. Two versions of IFRS 9 have been issued so far. There is the potential for IFRS 9 to continue to be reissued in phases for the remainder of the project to replace IAS 39, and the remaining topics are impairment of financial assets, general hedge accounting, macro hedge accounting, and offsetting financial assets and financial liabilities.
12. The staged issue of IFRS 9 has caused a great deal of complexity, particularly in respect of consequential amendments to other IFRSs and consequential amendments to both versions of IFRS 9 resulting from the issue of other IFRSs. AASB staff consider that reissuing IFRS 9 again on a piecemeal basis will create further complexities.
13. Accordingly, AASB staff recommend urging the IASB to issue IFRS 9 only once more when the remaining phases of the project to replace IAS 39 are complete.

Question 3 to the Board

Do you agree with staff's recommendations in paragraph 13?

Next steps

13. Comments on ED/2011/3 are due by 21 October 2011 and the next AASB meeting is on 26-27 October 2011. Consequently, staff propose that an AASB submission on ED/2011/3 be finalised out-of-session through the Chairman.

Attachments

Agenda paper 9.4 – AASB ED 215 *Mandatory Effective Date of IFRS 9*

Agenda paper 9.5 – Submission no. 1 of AASB ED 215