22 December 2010

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
MELBOURNE VIC 3007

Via email: standard@aasb.gov.au

Dear Kevin

ITC 24 Request for Comment on IASB Request for Views on Effective Dates and Transition Methods

Thank you for the opportunity to comment on the AASB Exposure Draft ITC 24 *Request for Comment on IASB Request for Views on Effective Dates and Transition Methods*. CPA Australia, The Institute of Chartered Accountants (The Institute) and the National Institute of Accountants (the Joint Accounting Bodies) have jointly considered this invitation to comment and our comments follow.

The Joint Accounting Bodies represent over 190,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

We consider that the single date approach to be the best option, with an effective date of 1 January 2015, to give December year ends enough time to get systems in place for getting comparative year data. We also consider that early adoption should be permitted, but with certain exceptions for related standards. For example, if insurance is early adopted, so should financial instruments, and where leasing is adopted, so should revenue.

Our response to matters on which specific comment is requested is included in the attached Appendix. Also attached is our submission to the IASB that includes our responses to the specific IASB questions for comment.

Yours sincerely

Alex Malley
Chief Executive Officer
CPA Australia Ltd

Graham Meyer
Chief Executive Officer
Institute of Chartered Accountants in Australia

Andrew Conway
Chief Executive Officer
National Institute of Accountants

The AASB would particularly value comments on the following:

1. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
(a) not-for-profit entities; and
(b) public sector entities;

There may potentially be an impact on the Australian tax reporting requirements, in those areas where accounting and taxation requirements do link to a certain extent. We recommend that the AASB encourage Treasury to discuss the changes with the Australian Taxation Office and convene a discussion group to scope out the potential taxation implications. The taxation areas that may be impacted could include income recognition, interaction with the thin capitalisation rules, consolidations and the new legislation around the taxation of financial arrangements.

We do not consider there to be any additional issues regarding the implementation of the proposals relating to not-for-profit entities and public sector entities.

2. whether, overall, the proposals would result in financial statements that would be useful to users;

We consider that the single date method would result in more useful financial statements than the sequential approach, as there would be less scope for misunderstanding by users.

3. whether the proposals are in the best interests of the Australian economy; and

We consider that the proposals are in the best interests for those entities operating in the capital markets.

4. unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

Given that the proposals relate to how nine new and revised standards will apply, the costs relative to the current requirements will be significant. We have outlined our qualitative analysis of the type of costs likely to be incurred in our IASB submission. However in addition to this, the taxation aspects of the proposals need thorough review, as it could substantially affect the timing of tax payable.

22 December 2010

Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

Via "Open to comment" page on www.iasb.org

Dear Sir David

Comments on Request for Views on Effective Dates and Transition Methods

Thank you for the opportunity to comment on the IASB Request for Views on Effective Dates and Transition Methods. CPA Australia, The Institute of Chartered Accountants (the Institute) and the National Institute of Accountants (the Joint Accounting Bodies) have considered this Request for Views and our comments follow.

The Joint Accounting Bodies represent over 190,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

We consider that the single date approach to be the best option, with an effective date of 1 January 2015, to give December year ends enough time to get systems in place for getting comparative year data. We also consider that early adoption should be permitted, but with certain exceptions for related standards. For example, if insurance is early adopted, so should financial instruments, and where leasing is adopted, so should revenue.

Our response to matters on which specific comment is requested is included in the attached Appendix.

If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au, Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au or Tom Ravlic (NIA) at tom.ravlic@nia.org.au.

Yours sincerely

Alex Malley
Chief Executive Officer
CPA Australia Ltd

Graham Meyer
Chief Executive Officer
Institute of Chartered Accountants in Australia

Andrew Conway
Chief Executive Officer
National Institute of Accountants

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

Please refer to our opening comments about the Joint Accounting Bodies.

Q2. 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?

We believe this will be entity specific and will therefore vary depending on the nature of each entity. However, most entities have both revenue and leases, and therefore these will require more time to implement.

Some industry specific impacts will include:
- Financial institutions will most likely be affected by financial instruments, insurance, and consolidation changes.
- The construction industry will likely be mostly impacted by the revenue changes.
- The retail, airline, and mining sectors will be most likely affected by the leasing proposals.

(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?

The types of cost we expect members will incur include:

- Human capital costs on training in implementation, applying judgement and adequacy of documentation. Further current employee performance schemes will need review.
- IT systems development – existing systems (particularly in the leasing and revenue areas) will need to be significantly modified or developed to ensure organisations can capture and report on the data required by the new proposals.
- Internal controls and processes – initial recording of transactions and the reassessment required (in some cases) will require significant and complex changes to existing processes and internal controls.
- Information gathering – gathering and analysing existing revenue contracts and lease arrangements will take a significant amount of time and effort. Additional reconciliations will need to be performed under IFRS 8 and statutory reporting.
- Stakeholder communication – a significant investment will be required to be made to educate both internal and external users of financial statements of the effects on key financial ratios and performance measures.
- Contracts with financial institutions – the impact of the proposals on financial ratios and performance measures may require revisions to agreements and contracts that embed such measures, for example financial covenants with lenders.
- Increased audit fees – the complexity and subjectivity of the assumptions, coupled with the extensive up-front costs of implementation will add significantly to the level of audit activity and fees.

The relative significant cost will depend on the nature of each entity.

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?

There may potentially be an impact on the Australian tax reporting requirements. Some tax reporting requirements are linked to the treatment under accounting standards. Thereby the timing of tax payable will likely be altered as the changes take place. We have recommended that our local standard setter, the Australian Accounting Standards Board, encourage the government to review such linkages.

In relation to auditing standards, Australia has adopted those issued by the International Auditing and Assurance Standards Board and we do not consider that any change to the mandatory requirements is required. However, there may be some benefit in aligning the guidance in ISA 540 *Auditing*

Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures to the requirements of the IASB's Fair Value Measurement standard.

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.

As noted in our comment letters to the various projects, we consider that full retrospective application should be allowed as an option for those entities who have the information available, as paragraphs 23-25 in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* addresses the impracticability issue for those entities who would find it extremely difficult in applying the requirements retrospectively. Therefore, we do not agree with the transition method proposed for those projects with limited retrospective application.

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).

We prefer the single date approach because we consider there is substantial benefit in only updating knowledge and systems once rather than each year, as would be the case under the sequential approach. Further, another disadvantage with the sequential approach is that it would draw out the implementation process over a number of years.

(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?

The mandatory effective date should be 1 January 2015 to give entities with December year-ends a minimum 12 month period prior to the comparative period to update their systems and train staff to capture comparative data.

(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.

We do not consider the sequential approach to be appropriate and therefore have no comment on how this could apply.

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

We do not think another approach would be viable.

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)?

Entities should be allowed to early adopt the standards because it has worked well in the past and enables an awareness and understanding of how the requirements actually apply in practice sooner rather than later, so that by the time they become mandatory, many of the key issues and concerns about applying the standards in practice have been resolved.

Further, the application of the standards needs to be flexible enough for global companies to achieve the best outcomes, particular if a major part of the operation has not yet converted to IFRS.

We also consider that early adoption should be permitted, but with certain exceptions for related standards. For example, if insurance is early adopted, so should financial instruments, and where leasing is adopted, so should revenue.

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?

We do not think it is necessary for the IASB and FASB to require the same effective dates and transition methods. The US convergence program is on a completely different path to those countries that have already adopted IFRS, therefore, there is no need for these to be linked.

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?

First time adopters should be allowed to adopt all the standards early so that they can implement all the changes at once if they choose. However, individual jurisdictions should be able to reach a different conclusion on this matter if considered necessary.