Federation of European Accountants
Fédération des Experts comptables Européens

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
GB – LONDON EC4M 6XH

E-mail: commentletters@ifrs.org

10 February 2011

Ref.: ACC/PRJ/TSI/IDS

Dear Sir David,

Re: FEE Comments on IASB's Request for Views: Effective Dates and Transition Methods

(1) FEE (the Federation of European Accountants) is pleased to comment on IASB's Request for Views on Effective Dates and Transition Methods (the "Request for Views").

(2) As a founding organisation of EFRAG we have also contributed to the EFRAG consultation process by submitting the FEE comments on EFRAG's Draft Comment Letter of 22 November 2010. EFRAG has issued its final comment letter on 31 January 2011. We have considered the EFRAG Final Comment Letter in our response and make reference to the EFRAG comments where relevant.

(3) We prefer a single effective date approach for standards resulting from the IASB's projects on *Revenue from Contract with Customers, Leases (including accounting by the lessor), Insurance Contracts, Financial Instruments (IFRS 9), and Fair Value Measurement* ("Group 1"). These standards are interlinked or complementary. Therefore, a piecemeal approach should be avoided to ensure the relevance of the financial information and the comparability between entities, inasmuch as possible.

(4) Based on the complexities of the Group 1 standards, there is a need for an adequate implementation period to allow all stakeholders (preparers, users, auditors, regulators, tax authorities, etc) the time to integrate the impact of the new standards in their operations. Without establishing an irrevocable minimum lead time, we believe that a period of at least 36 months from the issuance of the last standard in the group would represent a reasonable period to allow for a well-managed implementation. Therefore, assuming that the last standard will be issued in June 2011, we suggest that the earliest mandatory adoption date should be 1 January 2015. If the completion of some of the standards is delayed beyond 2011, we believe that the mandatory effective date should be similarly postponed to ensure an implementation period of at least 36 months.

(5) Furthermore, we think that an early application should be permitted for Group 1 projects. However, it would be important to mandate a collective early adoption of these new standards to ensure that they become effective on the same date given the interrelationship of the standards in that group, as mentioned above.

(6) We also believe that standards resulting from the projects on *Post-employment benefits – Defined benefit plans – Proposed amendments to IAS 19 and Presentation of Items of Other Comprehensive Income - Proposed amendments to IAS 1 ("Group 2")* should be adopted on a case by case basis with an early adoption permitted. These standards represent less complex and more discrete changes to the current accounting requirements.

(7) However, we believe that the Consolidation and Joint Arrangements standards should form a separate group ("Group 3") to be adopted at the same time. To facilitate implementation, we propose that the effective date of the standards in Group 3 should be the same as those in Group 1 (i.e. at the earliest on 1 January 2015, to be adjusted if delays are encountered in the finalisation of the various standards in Groups 1 and 3). While we believe that the effective date for Group 1 and 3 should be the same for practical reasons, we believe that entities should be allowed to early adopt standards in Group 3 without necessarily adopting those in Group 1, and conversely. Given that there is less interrelation between the standards in the two groups than within Group 1, we are of the opinion that separate adoption of the standards in each of the group would not necessarily impair the relevance of the financial information produced.

(8) We also think that that the Board should consider permitting earlier adoption for first-time adopters for pragmatic reasons. However, in order to preserve the coherence of the financial information, first-time adopters that decide to adopt early one standard should be required to adopt at the same time all related standards. This may involve grouping standards as outlined above.

(9) In the light of new and amended IFRSs, it is also recommended that the IASB re-deliberate the necessity for changing IFRS 1 to better accommodate future first-time adopters.

(10) In our previous comment letters, we expressed some concerns about the proposed transitional provisions for standards included in the scope of this Request for Views. Key extracts from our previous comments are included in response to Question 4.

Our responses to the questions in Request for Views are also included in the Appendix of this letter.

For further information on this letter, please contact Tibor Siska, Project Manager, at FEE Secretariat on +32 2 285 40 74 or via email at tibor.siska@fee.be.

Yours sincerely,

Philip Johnson
President

Appendix 1

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).

(11) The Federation of European Accountants - Fédération des Experts-Comptables Européens (FEE) is the representative organisation for the accountancy profession in Europe. FEE's membership consists of 45 professional institutes of accountants from 33 countries. FEE Member Bodies are present in all 27 Member States of the European Union and three member countries of EFTA. FEE Member Bodies represent more than 500,000 accountants in Europe.

Question 2
Focusing only on those projects included in the table in paragraph 18 of IASB Request for Views:

(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?

Questions to constituents

Assuming that the IASB finalises the above projects without any significant changes compared to the Exposure Draft or subsequent Staff Draft:

(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?

(c) Are there any other changes that you would expect to make (e.g. changes in contracts or general terms and conditions in advance of the new reporting requirements)?

Has the IASB made any tentative decisions after issuing the Exposure Draft or subsequent Staff Draft that would change your answer to the questions above?

(12) The issuance of the various projects will have a widespread effect on the financial community. Indeed, while the preparers will be the first impacted, the new standards will also greatly affect the operations of users, analysts, auditors, regulators, tax authorities, etc. All of these stakeholders will require time to train personnel, interpret the standards, adapt systems, and analyse impacts on metrics used to evaluate performance.

(13) It is difficult at this time to assess accurately the impact of the proposed new standards given that their scope and content continue to evolve. It is also likely that the impact would vary greatly by industries. However, we would expect that, overall, the standards on *Revenue from Contract with Customers, Leases (including accounting by the lessor), Insurance Contracts, Financial Instruments (IFRS 9), and Fair Value Measurement* are likely to have the greatest impact on the various stakeholders.

(14) As indicated above, we are not in a position to accurately estimate the costs and the extent of the changes that companies would need to take on in order to make these changes operational within their business model. Clear approximation of the relevant costs can only be made by the industries/companies concerned.

(15) We agree with the nature of the costs identified by EFRAG in paragraph 2 of its final response. In addition to these costs, we believe that entities will require to evaluate whether (and if so, how) contracts should be adjusted to ensure that the new standards appropriately convey the economics of the contracts. To this extent, applying a single effective date can potentially ease the implementation by requiring companies to assess the impact of the new standards on their various transactions only once.

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?

(16) We think that these changes can also have significant impacts on regulatory, tax requirements, dividend distribution, statistics, debt covenants and capital requirements in the relevant jurisdiction, at industry or at international level.

(17) Since the implication of adopting these new changes could be far-reaching and mobilise significant resources, it is important to ensure that the companies have adequate implementation period as mentioned later in this letter.

(18) Further, FEE commends the IASB for asking constituents to consider the implications of introduction of new financial reporting standards to auditing standards. While we do not expect that the general auditing principles would be likely to change as a result of changes to the accounting standards, certain elements of the international auditing standards and the related guidance may need to be revisited in light of many new areas of judgment that the new financial reporting standards will introduce. This could be the case for the assessments of the audit of risks, for instance.

(19) The feedback received in this Request for Views would be a good starting point for further discussions from the viewpoint of financial reporting and will complement the debate from the audit angle which recently has been initiated by the IAASB in its Discussion Paper on "*The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*" in line with the IAASB Strategy and Work Program 2009-2011. FEE looks forward to contributing further to this important debate.

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.

(20) As a matter of principles, we always prefer a full retrospective application of the newly issued standards in order to facilitate a year-on-year comparison. However, exceptions could be made in special circumstances after considering whether the restatement of the comparative information can be done in a sensible way and would provide meaningful and relevant information. To address the exceptional situations where retrospective application is impracticable or unduly burdensome, we believe that the IASB should define a single alternative transition method.

(21) We have previously responded to each of the IASB's exposure drafts dealing with standards which are in the scope of the Request of Views and therefore the following paragraphs highlights only certain key issues. For more details with respect to a particular standard, we refer to our comment letters to the relevant exposure draft.

Financial Instruments

(22) In principle, we would prefer a required single effective date for the whole IFRS 9. In that respect, the current transitional requirements of IFRS 9 should be amended to facilitate this.

(23) We are of the opinion that the transition provisions need to be simplified in order to facilitate adoption and to remove inconsistencies and ambiguities.

(24) As drafted the transition provisions are not practical and risk to discourage early adopters. We support an approach to transition based on the IFRS 1 requirements for entities that first adopt IAS 39. In all cases, and not just on early adoption, there should be a reconciliation between the closing balance sheet using the existing IAS 39 and the opening, restated balance sheet with explanations for the main changes in classification and measurement. In our view, this reconciliation would provide useful and understandable information.

IASB Exposure Draft Revenue from Contracts with Customers

(25) As stated in our comment letter, we are concerned that the proposal in its current form does not provide clear conceptual basis to ensure consistent application. The principles, in particular around the control concept, are not robust enough and need to be clarified in order to achieve an improvement compared to the current standards. Should the IASB decide to proceed with its proposal, in our opinion, the retrospective application is the preferred method.

IASB Exposure Draft Insurance Contracts

(26) As stated already in our comment letter on the ED we do not agree with the proposed transitional requirements. In particular, we note that the requirement in paragraph 100 of the ED will result in no residual margin being included in the insurance contract liabilities in the opening balance sheet. We disagree, and believe there should be some residual margin for contracts in force at transition. In our view, the treatment proposed in the ED prevents insurers from reporting a potentially significant part of the profits on existing contracts through profit or loss and reduces comparability between the results on existing and new business.

(27) In addition, we argue that the residual margin reflects to a large extent overhead and non-incremental acquisition costs not being considered in cash flows but in pricing. Under the proposed transitional rules the insurer will not be able to cover ongoing non-incremental acquisition cost and overhead, if there is no residual margin.

(28) We are concerned that the proposed transitional rules may create an incentive to set the risk margin for in force business artificially high and as a consequence distort comparability further.

(29) We believe that retrospective transition in accordance with IAS 8 should be required.

IASB Exposure Draft Leases

(30) We agree with the IASB assessment that mandatory full retrospective application would be too onerous in many cases and therefore we agree with the simplified transitional arrangements as proposed.

(31) However, we think that the full retrospective application of lease accounting should be permitted if relevant information is available.

IASB ED Presentation of items other comprehensive income –Proposed amendments to IAS 1

(32) While we do not support the amendment, should the IASB proceed with its proposal to impose the presentation of profit and loss and of other comprehensive income in a single statement, we agree that the change should be applied retrospectively to increase comparability and the usefulness of the information provided in the financial statements.

Questions to constituents
Do you have any comments on the transition methods that the IASB has proposed in the Staff Draft on *Consolidated Financial Statements*?
Do you have any comments on the transition methods for *Joint Arrangements* that the IASB has discussed in its May 2010 meeting (as described on the IASB"s website)?

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.

(33) We prefer a single effective date approach for standards resulting from the IASB's projects on *Revenue from Contract with Customers, Leases, Insurance Contracts, Financial Instruments (IFRS 9) and Fair Value Measurement* ("Group 1").

(34) These standards are interlinked or complementary. Therefore, a piecemeal approach should be avoided to ensure the relevance of the financial information and the comparability between entities, as much as possible.

(35) The single date approach has the advantage to allow preparers to assess the effects of different standards as a whole and evaluate them simultaneously rather than separating them into parts. It would also ensure the accounting being done once for these transactions without the repetition of restatements over number of years.

(36) In addition, by opting for a single date approach, the IASB would potentially reduce problems in comparability. Provided that adequate time is allowed, the single date approach would facilitate a cost-effective management of changes and would also allow the preparers to properly absorb the new requirements and their implications.

(37) Based on the complexities of the Group 1 standards, there is a need for an adequate implementation period to allow all stakeholders (preparers, users, auditors, regulators, tax authorities, etc) the time to integrate the impact of the new standards in their operations. Without establishing an irrevocable minimum lead time, we believe that a period of at least 36 months from the issuance of the last standard in the group would represent a reasonable period to allow for a well-managed implementation. Therefore, assuming that the last standard will be issued in June 2011, we suggest that the earliest mandatory adoption date should be 1 January 2015. If the completion of some of the Standards is delayed beyond 2011, we believe that the effective date should be similarly postponed to ensure an implementation period of at least 36 months.

(38) We also believe that standards resulting from the projects on *Post-employment benefits – Defined benefit plans – Proposed amendments to IAS 19 and Presentation of Items of Other Comprehensive Income- Proposed amendments to IAS 1 ("Group 2")* should be adopted on a case by case basis. These standards represent less complex and more discrete changes to the current accounting requirements.

(39) However, we believe that the Consolidation and Joint Arrangements standards should form a separate group ("Group 3") to be adopted at the same time. To facilitate implementation, we propose that the effective date of the standards in Group 3 should be the same as those in Group 1 (i.e. at the earliest on 1 January 2015, to be adjusted if delays are encountered in the finalisation of the various standards in Groups 1 and 3). While we believe that the effective date for Group 1 and 3 should be the same for practical reasons, we believe that entities should be allowed to early adopt standards in Group 3 without necessarily adopting those in Group 1, and conversely. Given that there is less interrelation between the standards in the two groups than within Group 1, we are of the opinion that separate adoption of the standards in each of the group would not necessarily impair the relevance of the financial information produced.

Question to constituents
What do you believe the effective date for the standards in Group 1 should be?

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)?

(40) We think that an early application should be permitted for Group 1 standards. However, it would be important to mandate a collective early adoption for these new standards to ensure that they become effective on the same date.

(41) This would allow companies facing fewer transitional challenges to implement these standards without delay, should they wish to do so. While early adoption may result in decreased comparability between entities, we believe that this risk is mitigated by the fact that entities within a specific industry often tend to adopt new standards at the same time.

(42) We think that an early adoption date should be permitted for the projects in Group 2.

(43) For *Consolidation and Joint Arrangements* ("Group 3") a collective early adoption should be permitted. This early adoption date could differ from those chosen for Group 1 standards.

(44) To the extent that new standards, other than those listed in paragraph 18 of the Request for Views, or amendments to existing standards are finalised, we suggest that it will be necessary to assess of the relationship, if any, between these new/amended standards and those considered in this Request for view. If they are interrelated, the effective date of these new/amended standards should be linked to those of the groups described above.

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?

(45) Until the US adopts (or fully converges with) IFRS, differences will remain even after completion of the joint projects addressed in this Request for Views. Accordingly, we do not believe that achieving common effective dates represent a prime consideration. We note that the main and primary objective of the IASB is to issue high quality standards with an effective dates and transition applicable to companies reporting under IFRS. Therefore, the interest of these companies should be the primary consideration of IASB when developing standards for effective dates and transition methods.

(46) To the extent possible, it is nonetheless desirable that the new comparable standards to be issued by the IASB and the FASB require a retrospective (or modified retrospective) application to ensure comparability with respect to these specific projects.

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?

(47) If the IASB were to follow our recommendations with respect to adoption by current IFRS users (please refer to our response to Questions 5 and 6), we believe that first-time adopters should be subject to the same adoption provisions.

(48) However, should the IASB decide not to permit early adoption by current IFRS users, we think that first-time adopters should be allowed early adoption nevertheless for pragmatic reasons. However, in order to preserve the coherence of the financial information, first-time adopters that decide to adopt early one standard should be required to adopt at the same time all related standards. This may involve grouping standards as outlined in our response to Question 5.

(49) As long as the IASB provides sufficient lead time before the effective date of the new standards, we do not see a rationale for providing first-time adopters a later effective date than for current IFRS users.

(50) It should also be noted that IFRS 1 *First-time Adoption of International Financial Reporting Standards* grants exemption to preparers from first-time adoption requirements when the cost of complying would be likely to exceed the benefits to the users of the financial statement. In the light of new and amended IFRSs, it is recommended that the IASB re-deliberate the necessity of changing IFRS 1 to better accommodate first-time adopters.