



# **IASB Request for Views on Effective Dates and Transition Methods**

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**Public Discussion**

Frankfurt, 11 January 2011



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## 1. Background (1)

- Several joint projects undertaken by the IASB and the FASB on the basis of the MoU with the objective to publish converged standards by June 2011.
- Many countries are adopting IFRSs over the next few years or are planning to do so.
- Adopting all the new requirements will result in necessary lead-time, effort and costs for both existing IFRS preparers and first-time adopters.
- Given these factors, IASB and FASB have published this *Request for Views* and a *Discussion Paper* accordingly.
- Comments are requested by 31 January 2011.

## 1. Background (2)

The following table lists the projects that are subject of this *Request for Views*:

Project	Status
Fair value measurement	Exposure drafts published May 2009 and June 2010
Financial instruments (IFRS 9)	Phase 1 (Classification & 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 (Re-Exposure planned for 1st quarter 2011) and the Phase 3 exposure draft was published in December 2010.
Revenue from contracts with customers	Exposure draft published June 2010
Insurance contracts	Exposure draft published July 2010
Leases	Exposure draft published August 2010
Post-employment benefits - Defined benefit plans - Proposed amendments to IAS 19	Exposure draft published April 2010
Presentation of items of other comprehensive income - Proposed amendments to IAS 1	Exposure draft published May 2010



## 1. Background (3)

- This *Request for Views* also includes consideration of the new IFRSs on *Consolidation and Joint Arrangements*.



## 2. Effective dates (1)

- The two broad approaches to setting the effective dates of the new IFRSs that are the subject of this *Request for Views* are as follows:
  - a) A single date approach – all of the new IFRSs would become effective at the same date, following an appropriate implementation period.
  - b) A sequential approach – each new IFRS, or an appropriate group of new IFRSs, would become effective at different dates spanning a number of years.
- The IASB seeks input on the advantages and disadvantages of these two broad approaches.



## 2. Effective dates (2)

### Question 5

In thinking about an overall implementation plan covering all the standards that are 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 that another approach would be viable and preferable? If so, please describe that approach and its advantages.



### 3. Early adoption

- The IASB often permits early adoption of new requirements. Some potential benefits include:
  - earlier reporting of improved information, and,
  - for reporting entities the ability to reduce implementation costs by timing the adoption of new IFRSs to coincide with other business changes.
- The primary disadvantage in permitting early adoption is reduced comparability across entities, which disadvantages users and market regulators.

#### **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)?



## 4. Preparing for transition to the new requirements (1)

- Choices about the method of transition directly affect the time, effort and cost of adapting to the new requirements.
- Many investors and other users of financial statements prefer entities to apply new requirements retrospectively to all periods presented in order to facilitate year-on-year comparison of results with a minimum of cost to the investor/user.
- In making decisions about transition methods, the IASB strives to balance the benefits of inter-period comparability with the cost and practicability of retrospective application. In balancing those benefits and costs, the IASB may decide:
  - to limit the extent to which entities need to revise previously issued financial information (the ‘limited retrospective method’);
  - to require the new IFRSs to apply only to transactions and events after a particular effective date (the ‘prospective method’).

## 4. Preparing for transition to the new requirements (2)

The following table summarises the IASB's tentative decisions about transition methods made separately for each exposure draft:

Project	Transition Method
Consolidation	Limited retrospective
Fair value measurement	Prospective
Financial instruments (IFRS 9)	Retrospective <sup>*</sup>
Insurance contracts	Limited retrospective
Joint arrangements	Limited retrospective
Leases	Limited retrospective
Post-employment benefits - Defined benefit plans	Retrospective
Presentation of items of other comprehensive income	Retrospective
Revenue from contracts with customers	Retrospective

\* Phase 3 *Hedge accounting* prospective only



## 4. Preparing for transition to the new requirements (3)

- The proposed transition method differs from project to project because the IASB based its decisions on the facts and circumstances of each project evaluated on a stand-alone basis. An important element of this *Request for Views* is to gather views about those individual project-level decisions in the context of an overall plan for implementation of the new requirements taken as a whole.
- One way to ease the application of the retrospective method is to delay the effective date, thereby enabling entities to accumulate cost-effectively the data needed to produce comparative information.
- The *Request for Views* raises the following questions about managing the cost of implementation through the implementation timetable (effective dates) :



## 4. Preparing for transition to the new requirements (4)

### 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 cost 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?



## 4. Preparing for transition to the new requirements (5)

### 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?

### 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, explain the primary advantages of your recommended changes and their effect on the cost of adapting to the new reporting requirements.



## 5. International convergence considerations

- The goal of the joint projects of the IASB and the FASB is to improve the quality of financial reporting and enhance the comparability of financial information by issuing standards that eliminate (or reduce) differences between IFRSs and US GAAP.
- Requiring the same effective date and transition methods for comparable IFRSs and US GAAP standards would further enhance comparability.

### Question 7

Do you agree that the IASB and the FASB should require the same effective dates and transition methods for their comparable standards? Why or why not?



## 6. Considerations for first-time adopters of IFRSs

- A number of jurisdictions are adopting IFRSs over the next few years. Some stakeholders have called for a ‚stable platform‘ of IFRSs and raised concerns over first-time adopters being required to make two significant changes to their accounting policies in quick succession.
- Two approaches have been suggested:
  - Allow first-time adopters to adopt the new and revised IFRSs early, even if existing preparers are restricted in their ability to adopt early.
  - Allow first-time adopters to defer adoption of some or all of the new and revised IFRSs by a set period of time, for example, two years.

### 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?

**Vielen Dank für Ihre Aufmerksamkeit!**

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