BUSINESSEUROPE

IFRIC
30 Cannon Street
London EC4M 6XH
United Kingdom

16 February 2011

Dear Sir or Madam,

Re: Request for views on Effective Dates and Transition Methods

We are grateful for the opportunity to provide comments on this Request for Views (RV).

BUSINESSEUROPE believes that the issues that preparers, users and auditors will be facing over the next few years - to implement a set of many changes that might be considered as extensive as those faced on adoption of IFRS in the EU in 2005 – are an unfortunate consequence of the approach taken by the Board in recent years, with the focus on convergence to a deadline. The substantive changes to IFRSs that are expected to be published this year do raise concerns for preparers in particular about finding the necessary resources to amend systems and controls, train staff and obtain, validate and publish audited information. It will also be very challenging to prepare the capital market for such major changes in financial reporting. It is therefore very important that the timescales are manageable.

Although the various Exposure Drafts propose a number of changes to current standards, it will not be possible to see the full impact until all of the final standards are issued. If they are not completed by their targeted mid-2011 date, the effective date(s) we discuss in this response should be amended accordingly. We would further caution that many of the fundamental changes envisaged by the Board will only be fully understood when companies translate the requirements into practice, adapt their policies to reflect the new guidance and amend their systems.

The effective dates should also be reconsidered if the Board decides to continue with retrospective application even where preparers demonstrate it is impractical/unduly costly and/or if the Board decides to change the transition method proposed in any of the Exposure Drafts to more extensive level of retrospective application.
Our guideline for considering alternative approaches is to mitigate the risks inherent in implementing the changes and where possible meet the need for comparability from users of financial statements in the most cost-beneficial way.

We believe that the mandatory implementation date for any of the new standards (for companies with calendar year reporting) should be no earlier than January 1st, 2015.

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This would probably allow sufficient time for companies to undertake the necessary work outlined above. In making its decision about the mandatory implementation date, the Board should also consider the future decision of the USA about the implementation date of those standards which have been developed primarily with convergence in mind, such as the future revenue recognition standard, in order to maintain a level playing-field in terms of comparability and cost.

As regards transition, we would expect the Board to have regard for the views expressed in response to the respective Exposure Drafts. Depending on the accounting and disclosures yet to be agreed for each standard, it may not be appropriate to mandate full retrospective application. The Board should also consider the practical implications of the inter-relationships between these standards when considering individual transition arrangements.

Should you wish to have any supplementary comments or explanation, please do not hesitate to contact us.

Yours sincerely,

J. Chau

Jérôme P. Chauvin
Director
Legal Affairs Department
Internal Market Department

APPENDIX: ANSWERS TO THE SPECIFIC QUESTIONS

Question 1 – Please describe the entity (or the individual) responding to this Request for Views.

(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 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) BUSINESSEUROPE represents small, medium and large companies in Europe as preparers of financial statements both in accordance with IFRSs and US GAAP depending on the company.

(b) Not applicable

(c) Not applicable

(d) The new standards cover a wide range of business transactions and activities. The extent of their impact will vary from company to company, but each will only be able to ascertain the full impact after the standards have been published.

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?

Although depending on the actual business, and operational and administrative structure of each company, it seems clear that the proposals on Leases, Revenue from Contracts with Customers and Financial instruments (IFRS 9) will have an impact on most, if not all, companies. In addition, we believe a significant amount of time will be necessary to implement the proposals on Joint Arrangements and Insurance Contracts.

(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 impact will depend on the extent of retrospective application required and also on the size and technical expertise available in each company.
Companies will incur costs to understand the new standards, train personnel, review contracts, implement changes to accounting procedures, controls and manuals, in the collection of data and to change systems for this collection and the resultant financial reporting and audit. Depending on the impact (or lack thereof) that any new requirements have on the financial statements, companies will have to ensure that the effect is communicated in a timely manner to users. Similar to adoption of IFRS in 2005, some companies may provide educational sessions to inform users.

The work will also include internal control documentation, testing and running parallel reporting systems. We would expect that any system changes will be a significant element of the total cost, particularly, as we expect that most of the solutions will be company specific and not "off-the-shelf". We believe that the time necessary to understand and translate the new guidance into practice will require a significant amount of resources, not only in accounting, but often in operations and other parts of a company.
Given the number of companies affected, to the extent that external resources are needed, the relevant expertise may be difficult to obtain or only available at a premium, although this may be mitigated somewhat by the setting of effective dates with a longer lead-time.

We would like to caution that any amounts mentioned in field-tests etc. are likely to be very approximate "guesstimates", as during field-tests or outreach activities, full compliance and system/process changes will not be achieved.
After implementation, on-going costs are likely to be higher than at present, depending of course on the complexity of the final standards and due to any new systems implemented or additional manual steps necessary, particularly if the accounting requires frequent (re-)estimates because, for example, of the use of weighted average expected outcomes.

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?

It is possible that in some jurisdictions the changes to standards will have knock-on implications for other regulatory or tax requirements, for example, where tax legislation refers to operating or finance leases. Therefore regulatory/tax authorities will also need time to assess the consequences of the new standards, as well as companies themselves.

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.

BUSINESSEUROPE has previously commented on these Exposure Draft proposals, including questions raised regarding transition and effective dates. However, these comments were primarily focused on each proposal in isolation.

Therefore, we welcome the Board's decision to issue this RV because a number of the proposals are complex and have inter-relationships with others and it is warranted that the transition methods are considered together. For practical reasons, it is important that the new standards that are inter-related (see our response to Question 5) contain transition provisions that allow for consistent implementation (i.e. they do not create accounting mismatches).

We note, however, that confusion could arise because different transition provisions will also apply in respect of disclosures, with some proposals (for example IFRS 9 as currently issued) requiring full retrospective disclosures and some (for example the Exposure Draft concerning hedge accounting) requiring no comparative disclosures. We understand the need for this flexibility, and raise the point as needing consideration when the Board determines its approach to implementation.

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 minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing 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.

Our guideline for considering alternative approaches is to mitigate the risks inherent in implementing the changes and where possible meet the need for comparability from users of financial statements in the most cost-beneficial way.

We believe that the mandatory implementation date for any of the new standards (for companies with calendar year reporting) should be no earlier than January 1st, 2015. We hope that this would allow sufficient time for companies to undertake the necessary work. It must not be forgotten that some of the proposed standards represent a very different approach to accounting and have not yet been thoroughly tested, and therefore enough time must be allowed to deal with unforeseen difficulties. In addition, any delay in the finalization of standards will have to be taken into account in the setting of the implementation date.

If the Board were to decide to mandate a single date approach for inter-related new standards (a phased approach), then we would urge that under such an approach, the new standards for Fair Value Measurement, Financial Instruments (IFRS 9), Revenue from Contracts with Customers, Insurance Contracts and Leases should not be implemented with an effective date of any earlier than 2015. These standards impact a wide area of accounting and there are inter-relationships between any two or more of them.

Whatever approach taken by the Board, timely and comprehensive disclosure of the approach adopted and the impacts of the changes will be of paramount importance to the maintaining of comparability.

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)?

Please refer to our response to Question 5.

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?

Whilst convergence would be preferable, this should not be an over-riding consideration and in our view should not be used as any benchmark or preferred outcome.

However, where a specific standard, such as the future revenue recognition standard, for example, has been developed primarily for the purpose of convergence, the Board should take into account the USA's decision about adoption when it sets the effective dates for IFRS reporting entities. We think it is important that a "level playing field" is achieved both in terms of accounting standards and cost of implementation.

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?

Ideally we would seek an overall approach that can also be applied by first-time adopters. For practical reasons, to avoid companies having to implement significant changes shortly after adoption, it would be understandable if the Board also permitted early adoption of any standard on the same date that a first-time adopter adopts IFRSs.

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