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Sir David Tweedie Chairman International Accounting Standards Board 30 Cannon Street London EC4M 6XH

Our ref Contact MT/288 Mary Tokar

Technical Director Financial Accounting Standards Board 401 Merrit 7 PO Box 5116 Norwalk, CT 06856-5116 USA

31 January 2011

Dear Sir David and Technical Director

Comment letter on IASB Request for Views on Effective Dates and Transition Methods, 19 October 2010 and FASB Discussion Paper Effective Dates and Transition Methods (File Reference 1890-100)

We appreciate the opportunity to comment on the Request for Views ("RfV") issued by the International Accounting Standards Board (IASB) and the Discussion Paper ("DP") issued by the US Financial Accounting Standards Board (FASB) (collectively, the Boards). We have consulted within the KPMG network in respect of this letter, which represents the views of the KPMG network, including the US member firm.

This cover letter provides an overview of our responses and is accompanied by two appendices; in the appendices we respond to the questions posed by each Board. We have responded separately to certain questions of each Board because the impact of the changes resulting from the new standards for both users and preparers could differ between companies following IFRSs and those following US GAAP even if the final standards are converged. Our responses to the DP in Appendix 2 are intended to supplement the responses to the RfV in Appendix 1 for differences in the US reporting environment and differences in the projects that are the focus of near-term standard setting by the FASB as compared with the IASB.

We commend the Boards for the approach they are taking with their RfV/DP. The adoption of the new and revised standards which the RfV/DP cover is more than a technical issue as the adoption of the new and revised standards collectively will represent a change management issue for preparers, auditors, users and other stakeholders. In establishing effective dates we believe that the Boards should seek to minimise the costs of the transition impacts of the upcoming changes in standards for all stakeholders.



We believe that each Board should develop a transition approach for each new and revised standard considering:

- (a) The minimum time required for orderly and efficient transition, with the input from preparers being especially important; in setting the mandatory effective date, each Board should set the date no earlier than this minimum time period; and
- (b) how users of financial statements balance the:
  - (i) desire for improved financial reporting expected to result and therefore presumably a desire for the earliest possible adoption of the new and revised standards; and
  - (ii) expected impact on comparability among entities if some entities early adopt whilst others wait until the mandated date.

Establishing extended periods until adoption of standards is mandatory while allowing early adoption would create a very large number of possible combinations of standards that could be used across a number of years. As all of these combinations would be able to claim compliance with IFRSs or US GAAP, there is a risk of impacting the comparability of the group of entities reporting under either IFRSs or US GAAP even before considering comparability between IFRSs and US GAAP.

We suggest that the Boards seek to address the concerns about comparability during the adoption period by limiting the number of possible combinations of adoption dates for standards by "batching" the effective dates of the new and revised standards. This batching would require standards with significant interactions and linkages to have the same effective dates and to be adopted simultaneously even when early adoption is elected. We believe that the Boards should not place any general restrictions on early adoption of the new and revised standards on the basis that their adoption is presumed to improve financial reporting. Hence we believe that the Boards should allow early adoption when other related standards also are adopted at the same time.

For example, our analysis of the new and revised standards for IFRSs and the expected difficulty of implementation and impact on comparability could result in two basic groupings. These are:

- (a) Mandated effective date not earlier than 18 to 24 months after the new and revised standards are published, with in most cases no limits placed on early adoption because they have limited comparability impacts and/or the effect is to reduce existing diversity.
- (b) Mandated effective date three to four years after the new and revised standards are published. This extended period is due to more significant preparation being needed prior to implementation. For these standards there would be restrictions placed on early adoption with all standards in the same batch required to be adopted at the same time.

The specific standards that may be grouped together and the timing of the required adoption may differ for US GAAP due to fewer standards that may be involved, differences in current standards and the potential implications of the SEC's decision on whether IFRSs should be incorporated into the financial reporting system for US public companies.



We note that differing transition methods (e.g., the IASB using a prospective approach and FASB a retrospective one) for a converged standard could create long-term lack of comparability even after the converged standard had become mandatory for both financial reporting frameworks. While enhanced comparability between IFRSs and US GAAP is desirable until adoption of the converged standards is mandatory, we believe that the more important focus should be on comparability after transition, especially for converged standards. Therefore, in terms of enhancing comparability between companies reporting under IFRSs and US GAAP we encourage the Boards to prioritise conforming the transition methods above conforming the effective dates.

Another aspect of minimising the costs of transition relating to the new standards is reducing the risk of multiple rounds of major changes for first-time adopters of IFRSs. We believe that first-time adopters of IFRSs should be permitted to adopt early all of the new and revised standards without limitation, other than the need to adopt all those linked in a "batch", as part of their first-time adoption.

As instructed by the FASB in their DP, the responses in Appendix 2 generally presume that the SEC does not decide to permit or require adoption of IFRSs for public companies currently required to report under US GAAP. However, if the SEC decides to require or permit US public companies to use IFRSs, the FASB will need to coordinate the effective dates of their standards with the effective dates of the transition to IFRSs. If the SEC decides to permit or require the use of IFRSs by US public companies then we believe that the FASB's transition dates may need to be reconsidered to avoid requiring two major changes by US companies in close proximity.

Please contact Mary Tokar at +44 (0)20 7694 8871 or Mark Bielstein at +1 212 909 5419 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

**KPMG IFRG Limited** 

KPMG IFRG Limited

Appendix 1: responses to IASB RfV

Appendix 2: responses to FASB DP



## **Appendix 1 – Responses to the IASB's questions**

#### **Background Information – 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).
- (a) As outlined in the covering letter, this letter is submitted by KPMG IFRG Limited on behalf of the KPMG network of firms.

Member firms of the KPMG network are auditors of multinational, regional and national entities covering all major industries. The member firms audit financial statements prepared under a variety of financial reporting frameworks including IFRSs and US GAAP.

Advisory functions within KPMG member firms provide accounting advisory services. These services include advice on implementation of new and revised IFRSs and US GAAP.

- (b) Not applicable.
- (c) In the year ended 30 September 2010 the separate member firms of KPMG International had over 112,000 professionals and had operations in 144 countries and territories.

The KPMG member firms audit both public entities and private entities.

- (d) Not applicable.
- (e) Each of the new and revised standards will impact auditors and those professionals providing advisory services on accounting matters. As auditors of financial statements



ultimately KPMG member firms will need to opine on financial statements prepared using the new and revised IFRSs. In order to do so KPMG professionals will receive training to understand the requirements of the new and revised IFRSs whether for audit or advisory purposes. In addition accounting and auditing guidance to support professionals conducting audits will be developed.

The lead time for us as auditors and accounting advisors will vary for each of the new and revised standards.

We have established mechanisms for disseminating information, developing and rolling out training material, implementation guidance and developing audit tools. We believe that we would be able to support the preparation of KPMG professionals for all the new and revised standards to support early adoption and early planning of mandatory adoption. Our established channels include education sessions, publications and training.

Having considered the time requirements within the KPMG network of firms, we believe that the Boards should focus on obtaining an understanding from preparers of the length of time it will take for efficient and effective preparation to adopt each new and revised standard.

# Preparing for transition to the new requirements – 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 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?
- (a) In answering this question rather than attempting to define precisely the length of time we graded all the new and revised IFRSs into three categories based on the expected time required for implementation (short, medium and long).

New and revised IFRSs	Period (short/medium/long)	
Fair value measurement	M	
Proposed amendments to IAS 19	S	
OCI proposed amendments to IAS 1	S	
Consolidation	M	
Joint Arrangements	M	
Disclosure of Interests in Other Entities	S	



Financial instruments – phase 1	L*
Financial instruments – phase 2	L*
Financial instruments – phase 3	L*
Insurance contracts	L
Revenue from contracts with customers	L
Leases	L

- \* See discussion in the response to question 5 in connection with the linkage between the different phases of the financial instruments standard project.
- (b) The majority of the costs that we expect to incur in planning for and adapting to the new and revised IFRSs will relate to training time and developing implementation guidance and audit tools.

# Preparing for transition to the new requirements – 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?

In some countries and territories there currently are differences in areas between accounting and tax computations. New and revised IFRSs may reduce or increase differences. "Work arounds" already exist for many differences and there is no reason to believe that, with sufficient time, updated "work arounds" cannot be put into place for any new differences arising from the new and revised IFRSs.

Due to the major changes in financial reporting, accounting systems and processes, and internal controls that will result from implementation of the new standards, various audit standard setters will need to address whether changes to audit standards or new interpretive guidance is needed. We encourage the Boards to discuss the potential impact of the new standards on the audit requirements with the various audit standard setters.

We are not aware that the adoption of new and revised IFRSs by preparers will require changes to be made in International Standards on Auditing ("ISAs") but this ultimately will depend on what the final requirements in the new and revised IFRSs are. We note that the IAASB currently has issued an exposure draft in which it proposes to withdrawal all its existing International Auditing Practice Statements ("IAPSs") and issue a new IAPS 1000 Special Considerations in Auditing Complex Financial Instruments.

We suggest that the IASB consult with the IAASB: (i) generally about the new and revised IFRSs so that the IAASB can consider whether any of the existing ISAs need to be amended



and (ii) whether any changes are needed to the proposed new IAPS 1000 and whether addition new IAPSs need to be issued.

As the IASB is aware, the Basel Committee on Banking Supervision ("BCBS") has finalised its revised capital requirements and these requirements are expected to be adopted locally in order to support transition from 2013 to 2022. In many cases the BCBS calculations start with the financial statements prepared under local reporting requirements which may be under IFRSs or on IFRS-based national or regional frameworks. Therefore, it is likely that there will be a number of interactions, but not necessarily conflicts, between changes to capital and related requirements, and the changes proposed by the IASB, in particular from the financial instruments, consolidation and possibly leases project. We believe that being required to adopt both significant changes in accounting and new capital requirements in the same period may be onerous. The time for financial institutions to consider the interactions and plan a coordinated adoption of both sets of requirements, and communicate to investors and others what the impact of these changes will be, is another reason that we support (as set out in the response to question 5) delaying the mandatory adoption of the whole of the financial instruments standard until 2015.

## Preparing for transition to the new requirements - 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.

The proposed methods of transition as summarised in this RfV and as included in the Appendix to the RfV largely are unchanged from those included within the Exposure Drafts (when issued by the date the RfV was published) for each project.

In our responses to each of the Exposure Drafts submitted to date we have commented in relation to the proposed transitional methods and have no changes to our individual responses as a result of reconsidering the transition method proposals for this response.

With respect to the chapters of IFRS 9 that have been issued already, we have the following observations:

• As a result of our discussions about this RfV, the continuing deliberations on impairment and the IASB's hedging proposals in the Hedge Accounting Exposure Draft, we have concluded that the IASB should revise the current effective date in the chapters of IFRS 9 Financial Instruments that have been finalised (classification and measurement requirements). We believe that the interaction between these chapters of IFRS 9 with the impairment and hedging proposals, including potentially the macrohedging proposals, for which an Exposure Draft has not been published yet, are sufficiently significant to not require adoption on a piecemeal basis. Therefore we propose in the response to question 5 classifying all chapters of IFRS 9 in the same batch with a single mandatory effective date. That single effective date should, in our view, be set considering the lead time required for implementation of the entire standard from its finalisation.



- IFRS 9 prohibits the application of its Implementation issues for later adopters. requirements to financial instruments that are derecognised prior to the entity's date of initial application. For entities initially applying IFRS 9 from 2011 onwards, the date of initial application is required to be the beginning of the first reporting period in which IFRS 9 is adopted. If the date of initial application is in 2012 or later, the entity is required to restate comparative information in accordance with the standard. The combination of these requirements is that an entity is unable to compile restated comparative information for a prior period until its date of initial application has passed since it is not until that time that it knows what instruments have been derecognised. Furthermore, the requirement creates operational complexity and a lack of consistency in that an entity must identify the specific instruments derecognised and then apply different accounting policies in prior periods to similar instruments in a portfolio depending on the date of derecognition. The operational burden is even greater for entities that report more than one year of comparative information. We recommend that the IASB consider permitting or requiring entities to apply IFRS 9 to all financial instruments in existence at the start of the first comparative period presented in the annual financial statements for the year in which IFRS 9 is adopted.
- Identification of the date of initial application by interim reporters. As noted above, for entities initially applying IFRS 9 from 2011 onwards the date of initial application is required to be the beginning of the first reporting period in which IFRS 9 is adopted. This suggests that if an entity adopts IFRS 9 in interim financial information prepared in conformity with IAS 34 *Interim Financial Reporting*, then the date of initial application is the beginning of the current interim period. However, selection of the start of the annual reporting period would be at least equally meaningful and would be consistent with the principle in IAS 34.28 that the frequency of an entity's reporting shall not affect the measurement of its annual results. It also would avoid different accounting policies being applied to different parts of the same annual period. We also note that it is not clear how the date of initial application should be identified if an entity that prepares interim reports in conformity with IAS 34, but does not adopt IFRS 9 in those interim reports, elects to adopt IFRS 9 in its annual financial statements.

The issues noted above could be significant particularly for entities that prepare financial statements in accordance with both IFRSs as issued by the IASB and an endorsed jurisdictional form of IFRSs. If the jurisdictional endorsement of IFRS 9 is delayed until the year of mandatory application, it is possible that an entity could have different dates of initial application under the two systems. This might lead to long-standing differences between the amounts reported under each.

Obviously, the precise nature of the changes that would best address these problems will depend on other choices made as to transition methods and effective dates, including their interaction with the phases of IFRS 9 that have yet to be completed. Finally on issuing the first chapters of IFRS 9 in November 2009, the IASB noted its undertaking to conduct a post-implementation review of each of its major projects as well as its intention to undertake a preliminary post-implementation review on the application of the requirements for classification and measurement of financial assets in IFRS 9. We recommend that the IASB undertake this review at the earliest possible opportunity in order to address the type of application issues raised in the agenda paper *Feedback IFRS 9 – non-recourse assets and constant maturity assets* discussed by the IASB in September 2010. We believe that this review should focus on identifying and addressing areas of lack of clarity for which there is a risk of diversity in practice or application



inconsistent with the Board's intent. The completion of the review and a revised mandatory effective date for IFRS 9 should be established so that any amendments to IFRS 9 are available in good time to entities that plan to adopt IFRS 9 when it becomes mandatory. Consistent with the IASB's 2009 Feedback Statement, the review should be discussed with the FASB. We understand that the FASB has decided recently that many loan assets might qualify for amortised cost accounting and the Boards should consider the extent to which it is practicable for them to align specific criteria for qualification for amortised cost accounting. More generally, timely completion of the review would demonstrate the IASB's commitment to quality and its responsiveness to the concerns of constituents, including those in jurisdictions that have not yet endorsed IFRS 9 for use locally.

## Effective dates for the new requirements and early adoption – 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.
- (a) We support a form of sequential approach.

A single date approach has some advantages. These include:

- (i) Comparability of financial information between companies would be maximised as they all would have to apply the same version of IFRSs at any given point in time and hence there only would be a limited period in which the comparability of financial statements is reduced due to differences in year ends of entities.
- (ii) It would avoid preparers having to make changes in their accounting policies with consequential prior period restatements over a number of years as the new and revised IFRSs are adopted if retrospective application were required.
- (iii) It would lessen the need for each Board to have to devise a variety of differing potential consequential changes to other standards dependent upon the "pick and mix" form of adoption of the new and revised standards. This would reduce the possibility of omissions



when considering what potential consequential changes to other standards are needed which then might generate corrections e.g., via the Annual Improvements Process.

(iv) It would reduce the possibility of omissions or conflicts within the scope requirements between old and new standards.

However, there is a major significant disadvantage to a single date approach which is the time before it can be effective. A single date change can be mandated only at the end of the longest lead-time period needed for implementation of a particular standard. Hence it would mean that all the improvements in accounting standards are delayed for the same time.

Hence we suggest use of a variant of a sequential approach as discussed in (c) below rather than a single date approach.

(b) If the IASB were to complete the projects noted in the introduction to the RfV by June 2011, then we believe that their collective effective date in a single date approach should be no earlier than accounting periods beginning on or after 1 January 2015. As discussed in (c) below 1 January 2015 would be needed for some projects; however we believe that some of them require less preparation and could be mandated earlier (2013) under a sequential approach.

If a single date approach is used then significant lead time would be needed due to:

- (i) Some of the new and revised standards will have a major effect on the financial statements and may need to be applied retrospectively. Hence it will take time for preparers to assess the requirements of the new and revised IFRSs and to prepare the financial information required to implement the new and revised IFRSs into their financial statements.
- (ii) In some jurisdictions, the new and revised IFRSs would need to be translated and/or endorsed. Endorsement mechanisms such as by the European Union may not be straightforward for all of the new and revised IFRSs and hence sufficient time is needed to try to avoid having different effective dates for IFRSs as issued by the IASB and other versions of IFRSs as issued or endorsed by other standard setters/endorsement bodies.
- (c) As stated in (a) above our preference is for a variant of the sequential approach for the adoption of these new and revised IFRSs.

We believe that it would be appropriate to have five batches of the new and revised IFRSs though the first three and the second two batches would have the same mandated effective date.



New and revised IFRSs	Batch	Early adoption permitted (see question 6)	Suggested effective date (accounting period beginning on or after 1 January)
Fair value measurement	1 (a)	Yes	2013
Proposed amendments to IAS 19	1 (b)	Yes	2013
OCI proposed amendments to IAS 1	1 (b)	Yes	2013
Consolidation	1 (c)	Yes but only with rest of batch 1 (c)	2013
Joint Arrangements	1 (c)	Yes but only with rest of batch 1 (c)	2013
Disclosure of Interests in Other Entities	1 (c)	Yes but only with rest of batch 1 (c)	2013
Financial instruments – phase 1	2 (a)	Yes but only with rest of batch 2 (a)	2015
Financial instruments – phase 2	2 (a)	Yes but only with rest of batch 2 (a)	2015
Financial instruments – phase 3	2 (a)	Yes but only with rest of batch 2 (a)	2015
Insurance contracts	2 (a)	Yes but only with rest of batch 2 (a)	2015
Revenue from contracts with customers	2 (b)	Yes but only with rest of batch 2 (b)	2015
Leases	2 (b)	Yes but only with rest of batch 2 (b)	2015

For batch 1 we believe that the effective date could be for accounting periods beginning on or after 1 January 2013 assuming that this is at least 18 months after the new and revised IFRSs are issued. We believe that this length of time between being issued and becoming effective should be sufficient for preparers to assess the new requirements and to prepare the financial information required to implement the new and revised IFRSs into their financial statements. It normally is a sufficient length of time for a new or revised IFRS to be translated and/or endorsed.



The new fair value measurement IFRS is the only item in batch 1 (a) for which the proposed transition method is prospective only. This IFRS will affect a number of areas of accounting. It is expected to reduce diversity by bringing different "fair value" measurements within different IFRSs onto a common platform. While we believe that there are some measurement issues to be addressed before an entity can adopt this IFRS, we believe that they are not so great as to require an extended period before mandatory adoption.

Fully retrospective application was proposed for the new and revised IFRSs in batch 1 (b). Generally the effect of these revised IFRSs is relatively minor though there will be some measurement issues that will to be need to addressed before an entity can adopt the amendments to IAS 19. In our view there is no need for an extended delay before mandatory adoption.

In our view there are no significant interdependencies in the two revised IFRSs in batch 1 (b) and as such there is no need for them to be adopted at the same time. This has consequences in relation to question 6 below.

The effect of adopting the new and revised IFRSs in batch 1 (c) will depend upon the type of entity. For some the revised consolidation IFRS may have no effect but for others the effect of consolidation in relation to *de facto* control candidates and, especially in the financial sector, SPEs may be significant. The revised joint arrangements IFRS will reduce the current accounting options and hence increase comparability. As there is significant interaction between all three new and revised IFRSs in batch 1 (c) we believe that all the new and revised standards in this batch should be adopted at the same time; this has consequences in relation to question 6 below.

Batch 2 is comprised of four projects: Financial instruments, Insurance contracts, Revenue from contracts with customers and Leases. For many entities, these new and revised IFRSs will require significant changes in accounting for core operational and reporting activities that have significant effects on a large number of items and transactions that an entity will undertake.

There are interdependencies between: (i) Revenue from contracts with customers and Leases; and (ii) Financial instruments and Insurance contracts. Some but not all entities such as insurance companies also will have significant interdependencies between Revenue from contracts with customers and Insurance contracts and so for them all four new and revised IFRSs should be linked together into a single batch.

As discussed in the response to Question 4 we believe that there should a single mandatory effective date for all of IFRS 9 in light of the interaction between its various chapters.

(d) Nothing to add.

## Effective dates for the new requirements and early adoption – 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 table in response to question 5.

For batch 1 (a) and 1 (b) we believe that entities should be permitted to early adopt the new and revised IFRSs without any limits.

There are only limited comparability issues arising comparing the financial statements of those entities that have adopted these new and revised IFRSs and those who have not and there are no significant interdependencies such that there is a need for them to be adopted at the same time.

For batch 1 (c) there would be more significant comparability issues arising comparing the financial statements of those who have adopted these new and revised IFRSs with those who have not. The standards within this batch also have interdependencies. On the basis that the new and revised IFRSs will be an improvement on the accounting compared to the current standards they are replacing, we believe that entities should be permitted to early adopt the new and revised IFRSs within this batch but if so then they should adopt all within the batch at the same time.

Batches 2(a) and (b) pose more complex issues. As outlined in our response to question 5, for many entities, these new and revised IFRSs will address fundamental aspects of their operations and reporting and therefore are expected to have significant effects on a large number of items and transactions that an entity will undertake. Adopting these standards over a period of several years is likely to enhance the challenge of comparing the financial statements of those who have adopted these new and revised IFRSs and those who have not. One approach that we considered but did not support would be to limit early adoption; for example, to allow early adoption only in say the year before adoption is required.

Whilst there would be some advantages to this approach we prefer an approach that focuses on limiting the variations by requiring adoption of the whole of batches. We believe that there should not be any restrictions on early adoption of the new and revised standards on the basis that their adoption is presumed to improve financial reporting. Hence we believe that early adoption should be allowed but if an entity wishes to early adopt one of the new and revised standards in a batch, other than batches 1(a) and 1 (b), then they should early adopt all within that batch at the same time.

We believe that requiring that if an entity that early adopts batch 2 (a) and/or 2 (b) also adopts the whole of the batch would limit sufficiently the number of variations of IFRSs to reduce the comparability concerns.

#### **International convergence considerations – 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?

Comparability of financial statements prepared under IFRSs and US GAAP would be enhanced if the IASB and FASB require the same effective dates and transition methods for their comparable standards. However, we believe that the effective date decisions of the other Board should not be the primary driver when each Board determines the effective dates and transition methods for its own standards, even if a new or revised IFRS is converged with US GAAP. The



changes required may be different for entities reporting under IFRSs and US GAAP given differences today in these two bodies of standards. We believe that it is more important for each Board to consider independently the change management requirements for preparers and users of its reporting framework than to align effective dates across the two bodies of standards.

We note that differing transition methods (e.g., the IASB using a prospective approach and FASB a retrospective one) for a converged standard could create long-term lack of comparability even after the converged standard had become mandatory for both reporting frameworks. While enhanced comparability between IFRSs and US GAAP is desirable during the transition period, we believe that the more important focus should be on comparability after transition, especially for converged standards. Therefore, in terms of enhancing comparability between IFRSs and US GAAP we encourage the Boards to prioritise conforming the transition method above conforming the effective dates.

## Considerations for first-time adopters of IFRSs - 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?

Paragraph 27 of the RfV sets out the IASB's view of the two main approaches for the implementation of the standards that could exist for first-time adopters being:

- (a) Allow first-time adopters to adopt the new and revised IFRSs early, even if existing preparers are restricted in their ability to adopt early; or
- (b) Allow first-time adopters to defer adoption of some or all of the new and revised IFRSs for a number of years.

We share the concerns of some stakeholders about the need for there to be a stable platform of IFRSs for first-time adopters to avoid requiring them to make two or more significant changes to their accounting policies in quick succession. This would occur if early adoption of the new and revised IFRSs was prohibited with the result that entities would have changes not only when adopting IFRSs but also from the later implementation of the new and revised IFRSs.

We support allowing first-time adopters to adopt the new and revised IFRSs early on their transition to IFRSs, even if existing preparers are restricted in their ability to adopt early. This preference reflects not only the cost/benefit considerations for both preparers and users of the financial statements of a first-time adopter but also the significant comparability impacts of switching reporting frameworks. We believe that the comparability concerns relating to early adoption are less significant for entities in the year of first-time adoption.

However, if an entity elects to early adopt some of the new and revised IFRSs on transition, then we believe that there needs to be two conditions applied. Firstly the first-time adopter should not have an unlimited free choice of which new and revised IFRSs to adopt. Instead they should apply all the "linked" new and revised IFRSs in that "batch" as part of their transition. Hence if Revenue is linked with Leases in a "batch" (see question 5), then if a first-adopter wishes to adopt the revised Revenue IFRS on transition it also would adopt the revised Leases



IFRS. Second, if the first-time adopter decides not to early adopt any of the new and revised IFRSs, then the requirements for existing IFRS preparers would apply.



## **Appendix 2 – Responses to the FASB's questions**

**Note**: Our comments in Appendix 2 focus mainly on the leasing, financial instruments, and revenue recognition exposure drafts as these are the projects expected to have the most significant impact on US GAAP in the near term. Our responses to the questions below supplement and address potential differences to the responses provided in Appendix 1 as they relate specifically to the US standards and US reporting environment.

#### **Background Information – Question 1**

Please describe the entity (or the individual) responding to this Discussion Paper. For example:

- (a) Please indicate whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor, or other user of financial statements (such as a regulator). Please also indicate whether you primarily prepare, use, or audit financial information prepared in accordance with US GAAP, IFRSs, 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 metric), 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 companies, 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), your investment perspective (long, long/short, equity, or fixed income), and the industries or sectors you specialize in, if any.
- (e) Please describe the degree to which each of the proposed new standards will likely 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 might explain the significance of the transactions to the particular industries or sectors they follow).

See Appendix 1.

# Preparing for transition to the new requirements – Question 2

Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition, and leases):

- (a) How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each new standard?
- (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?



(a) Ultimately the effort and time that will be required to adopt the final standards depends on the outcome of the final standards, how much field testing is completed by the FASB prior to the issuance of the standard, and the amount of implementation guidance provided by the FASB in the final standards. An increased amount of field testing in the development of the final standards would aid the process significantly. Further, field testing provides input to the FASB on the cost and effort to implement the standards and to identify areas for which additional guidance or clarity in the standards is needed.

We would not expect that the standard on comprehensive income, if finalised as proposed, would encounter significant implementation issues and therefore would not require a significant implementation period prior to adoption. If the standard on financial instruments were to be finalised as proposed, then a significant implementation period prior to adoption would be needed. However, with the recent tentative decisions by the FASB on classification and measurement that implementation period may be lessened depending on the Board's ultimate decisions on hedging and impairment. Application of the new standards on revenue recognition, particularly for certain industries, and leasing as proposed will require a substantial amount of implementation effort and therefore should not be mandatorily effective for at least three to four years after issuance of the final standards. Depending on the outcome of the final financial instruments standard, earlier implementation of that standard may be appropriate.

(b) From KPMG's standpoint, the types of costs we will incur are development and delivery of technical trainings, implementation guidance and audit tools.

More importantly for the FASB's consideration of appropriate effective dates and transition methods, the adoption of any new standard would require preparers to understand the new accounting requirements as well as the effects to their business, any changes needed to be made to contractual agreements (e.g., debt covenant compliance, employee compensation arrangements, supplier arrangements), changes needed to be made to their accounting systems, processes, and internal controls over financial reporting as well as other operational changes that would need to be implemented.

## Preparing for transition to the new requirements – Question 3

Do you foresee other effects on the broader financial reporting system arising from these new standards? 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?

We believe that the greatest potential effect related to the transition to the new standards could be from the interaction of the implementation of any new US GAAP requirements and any decision by the SEC to require or permit the use of IFRSs by US issuers. We believe that it is imperative for the FASB to coordinate its effective date requirements with any SEC decision on IFRSs so that US issuers are not faced with having to make two significant changes in financial reporting in a short period of time.

Changes to any of the current accounting structure could affect regulatory reporting in certain industries such as banking and insurance that will need to be considered by preparers and



regulators. Further, US public companies will need to not only make changes to accounting systems and processes, but also institute control procedures sufficient to comply with the internal control over financial reporting requirements applicable to such companies. We believe that the FASB should give these matters the appropriate consideration in determining the length of time needed to implement the new standards.

## Preparing for transition to the new requirements – Question 4

In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why? In particular, please explain the primary advantages of your recommended changes and their affect on the cost of adapting to the new reporting requirements.

See Appendix 1.

## Effective dates for the new requirements and early adoption - Question 5

In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:

- (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, what should the mandatory effective date be and why?
- (c) Under the sequential approach, how should the new standards 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 standards.
- (d) Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.
- (a) In general we are supportive of a "batching" approach as described in Appendix 1 of this letter. However, when looking at the projects expected to affect US GAAP in the near term, we note that there are only three exposure drafts expected to have a significant impact on the application of US GAAP (leasing, financial instruments and revenue recognition). Because of the significant interaction between lessor accounting and revenue recognition, we believe that those two standards should be implemented at the same time. Depending on the outcome of the financial instrument project, implementation of that standard prior to the standards on revenue recognition and leasing may be reasonable due to the greater urgency of improvements in financial reporting for financial instruments.



Additionally, the financial instruments exposure draft proposes a cumulative effect adoption approach whereas the revenue recognition and leases exposure drafts propose retrospective and modified retrospective application, respectively, which could necessitate a longer time period between issuance and effective date in order to allow preparers sufficient time to make changes to systems, processes, and controls to be able to implement these standards contemporaneously by running parallel processes during the transition period.

- (b) It is difficult to estimate the adoption date under either adoption method of the final standards, but we believe that any adoption date for the revenue recognition and leasing standards prior to 2015 would be difficult with fully retrospective application. This is especially the case when one considers the requirements for SEC registrants to provide summarized financial information for at least the five most recent years. Additionally, as noted earlier, we believe that it is critical that the implementation of these standards be coordinated with any requirement or permission for US issuers to begin applying IFRSs. As a consequence, because a decision by the SEC may occur after some of the FASB's standards are issued, the Board should be prepared to modify the original effective dates of its standards to achieve a better coordination of implementation of new US GAAP standards with a transition by some issuers to IFRSs.
- (c) See our response to (a) above.
- (d) Nothing further to add.

#### Effective dates for the new requirements and early adoption - Question 6

Should the Board give companies the option of adopting some or all of the new standards 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)?

We are not necessarily opposed to early adoption of any given standard and feel that the consideration of such should be made on a standard-by-standard basis by the Boards. However, as noted in our response to Question 5(a), because of the interaction between lessor accounting and revenue recognition we believe that the leasing and revenue recognition standards should be adopted at the same time.

#### **International convergence considerations – Question 7**

For which standards, if any, should the Board provide particular types of entities a delayed effective date? How long should such a delay be and to which entities should it apply? What would be the primary advantages and disadvantages of the delay to each class of stakeholders (financial statement preparers, financial statement users, and auditors)? Should companies eligible for a delayed effective date have the option of adopting the requirements as of an earlier date?



We believe that a delayed effective date may be appropriate for private companies for some standards—particularly the financial instruments proposal. The FASB should consider the input from preparers of private company financial statements in particular when evaluating this question.

#### Coordination of FASB and IASB Effective Dates and Transition – Question 8

Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

We urge the Boards to work towards issuing identical standards with identical transition methods. If the Boards are successful in doing so, then having the same effective date would be preferable but not essential since by implementing the same standards via the same transition method would mean that comparable financial reporting should be the outcome within a relatively short period of time. Also, as noted earlier, it is important that the FASB coordinate its effective date requirements with any requirements or permissions by the SEC for US issuers to use IFRSs.

## Considerations for private companies – Question 9

How does the Foundation's ongoing evaluation of standards setting for private companies affect your views on the questions raised in this Discussion Paper?

Absent any new research or other information that specifically addresses and identifies different needs of users of private company financial statements with respect to these standards, we do not believe that there would be any major changes to our views based on the Foundation's ongoing evaluation of standard setting for private companies. As mentioned above in our response to Question 7, we do believe that it may be appropriate to permit private companies to adopt a standard later than the required adoption by public companies if supported by cost/benefit information about the application of the standard by private companies.