Project	**Financial instruments: Replacement of IAS 39**
Topic	**Effective date of IFRS 9**

Background

1. The Board issued the first chapters of IFRS 9 *Financial Instruments* in November 2009 (IFRS 9 (2009)). Those chapters set out the requirements for classifying and measuring financial assets. In October 2010 the Board added the chapters on classifying and measuring financial liabilities (IFRS 9 (2010)). (References to IFRS 9 in this paper that are not dated do not differ between the two versions of IFRS 9).

2. IFRS 9 is required to be applied for annual periods beginning on or after 1 January 2013, with earlier application permitted. Generally, retrospective application (including restatement of comparatives) is required, with transition provisions to address specific difficulties that might arise from retrospective application. For entities that apply IFRS 9 for a reporting period beginning before 1 January 2012, although retrospective application is still required, restatement of comparatives is permitted, but not required.

3. In October 2010 the Board published a *Request for Views on Effective Dates and Transition Methods* (the 'Request for Views'). The objective of that consultation document was to gather feedback to help the Board establish appropriate effective dates and transition methods for the several new IFRSs expected to be issued during 2011. Comments on the Request for Views were due by 31 January 2011. In March 2011 the staff presented to the Board a high-level summary of the comments received.

Purpose of this paper

4. The Board stated in the Basis for Conclusions of IFRS 9[1] that it intended for the mandatory transition to all phases of the IAS 39 replacement project to occur concurrently, and that it may delay the effective date of the IAS 39 replacement project to better align with the effective date of the proposed insurance contracts guidance. We have also received requests to review the mandatory effective date through the Request for Views and our outreach.

5. Although not all phases of the project to replace IAS 39 have been completed, entities that have not yet applied IFRS 9 will be required to apply it from 1 January 2013 including presenting comparatives for the annual period beginning 1 January 2012. This paper addresses whether the Board should amend the mandatory effective date of IFRS 9 and, if so, what the effective date should be.

6. This paper does not address the transition provisions or specific transition issues for any phase of the project to replace IAS 39; these will be addressed in separate papers at a later date.

7. This paper also does not address how the effective date of IFRS 9 should relate to the effective dates of other projects covered by the Request for Views. These will be addressed in separate papers in a different session.

Summary of comments to the Request for Views related to IFRS 9

8. Many respondents commented that IFRS 9 should be mandatory no earlier than for annual periods beginning on or after 1 January 2015 to allow for some or all of the major MoU projects to be implemented concurrently, and/or that there should be at least three years between the date the last chapter of the IFRS is issued and the first comparative period presented. Another common theme of comments from preparers and auditors was that a single effective date for all phases of the project to IAS 39 (and the insurance contracts, revenue

[1] paragraph BC7.3 and BC7.4 of IFRS 9 (2010) and paragraph BC92 and BC93 of IFRS 9 (2009)

recognition, and/or leases projects for some entities) would be the most cost-effective option. Regulators emphasised the significant lead time that would be needed to evaluate the impact of the changes to the accounting for financial instruments on prudential and reporting requirements, as well as supervisory practices.

Alternatives identified by the staff

9. In identifying alternatives for the Board, the staff has considered responses to the Request for Views and the Board's discussion of the effective date in the Basis for Conclusions to IFRS 9. The staff has identified two alternatives for the board, which are to:

   (a) Retain the mandatory effective date of annual periods beginning on or after 1 January 2013; or

   (b) Change the mandatory effective date to annual periods beginning on or after 1 January 2015.

   These alternatives are discussed further in the sections that follow.

Retain an effective date of 1 January 2013

10. IFRS 9 (2009) was issued in November 2009, and IFRS 9 (2010) was issued in October 2010. Both versions of IFRS 9 contain a mandatory effective date of 1 January 2013. Those who favour retaining this effective date cite some or all of the following views:

    (a) Constituents have known the mandatory effective date of IFRS 9 (2009) more than three years before the beginning of the comparative period, with reaffirmation of the date in IFRS 9 (2010) more than two years in advance of the beginning of the comparative period. Therefore, they have had adequate time to prepare for the application of IFRS 9, irrespective of when all phases of the project to replace IAS 39 are issued;

(b) Non-endorsement over an extended period of time in some jurisdictions using IFRS as a basis for financial reporting is not an appropriate basis for the Board to delay the effective date of an IFRS; and/or

(c) A mandatory effective date of 1 January 2013 reduces the potential for non-comparability that will result from having an extended period of optional application of IFRS 9.

Views against leaving the mandatory effective date at 1 January 2013 are presented as views in support of moving the effective date.

Move the effective date to 1 January 2015

11. Those who support moving the mandatory effective date to a later date put forth some or all of the following arguments:

(a) The impairment and hedge accounting phases of the project to replace IAS 39 have not yet been completed, and therefore entities will not be able to concurrently implement all project phases as of 1 January 2013, with comparatives as of 1 January 2012. In the project to replace IAS 39 to date, the Board has decided that an entity should be able to adopt the comprehensive replacement of IAS 39 in one package. This mitigates a concern raised by preparers that they would like to be able to evaluate their classification and measurement decisions in light of the impairment and hedge accounting phases (refer to Agenda Paper 12E from the October 2009 Board meeting);

(b) Related projects like the Board's project on insurance, as well as other forthcoming IFRSs (eg revenue recognition and leases) in their view should all have the same effective date[2] (a 'single-date approach');

[2] The staff notes that some respondents had the opposite view; that is, they favoured phased implementation of these projects. However, those commenters did not favour a sequential phase-by-phase approach to implementation of the IAS 39 replacement project and therefore their view has not been included in support of retaining the current effective date. The staff further notes that entities that

(c) IFRS 9 has not yet been endorsed in Europe, and therefore a mandatory effective date of 1 January 2013 would soon necessitate IFRS reporting entities that are also SEC filers to prepare two sets of IFRS financial statements prior to EU endorsement—one in full compliance with IFRSs for the SEC, and another in compliance with IFRSs as endorsed by the EU. In the absence of a change in the mandatory date these entities need to prepare for this expeditiously due to the requirement to prepare comparatives; and/or

(d) The Board has stated that it will expose the FASB's final standard on the classification and measurement of financial instruments for comment by its constituents. The FASB is still debating the financial instruments project and will decide in the second half of 2011 whether to re-expose or finalise its proposals.

Views against moving the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015 were presented as views in support of retaining the effective date.

Staff recommendation

12. As stated in the Basis for Conclusions of IFRS 9[3], the Board has intended that the mandatory transition to all phases of the project to replace IAS 39 occur concurrently. The Board also stated that it may delay the effective date of the project to replace IAS 39 to better align with the effective date of the proposed insurance contracts guidance.

13. Given that the impairment and hedging phases of the project to replace IAS 39 are not yet complete, nor is the insurance project, the staff recommends that on the basis of current circumstances the Board should select move the mandatory

---

do favour phase-by-phase implementation are not precluded from applying IFRS 9 early and this fact does not change no matter the mandatory effective date of IFRS 9.

[3] paragraph BC7.3 and BC7.4 of IFRS 9 (2010) and paragraph BC92 and BC93 of IFRS 9 (2009)

effective date of IFRS 9 to annual periods beginning on or after 1 January 2015. The staff notes that moving the date would not prevent an entity from early adopting IFRS 9, or those that have already adopted IFRS 9. In addition, moving out the mandatory effective date is consistent with the comments received in response to the Request for Views and the Board's prior intention to transition concurrently to all phases of the project to replace IAS 39, as well as potentially the effective date of the proposed insurance contracts guidance.

Question – Effective date of IFRS 9
Does the Board agree with the staff recommendation in paragraph 13 to move the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015? If not, what does the Board want to do, and why?