RE: Request for Views on Effective Dates and Transition Methods

Dear Madam/Sir

We are pleased to comment on the above mentioned Request for Views published by the IASB to gather views about the time and effort that will be involved in adapting to the several new IFRSs it expects to issue by June 2011 and about when those IFRSs should become effective.

As regards the specific issues addressed by the Request for Views, here are our main comments:

• The volume and significance of the changes being discussed in this RFV must not be underestimated. We believe that preparers, users, auditors and others such as financial regulators will need sufficient time to adapt to the changes. There is a requirement for sufficient lead time, say three years from the issue of the final standard that is considered to be part of this package to the date of mandatory application. Assuming that all the standards are finalised during 2011, a mandatory application date for all the standards of 1 January 2015 would be reasonable.

• We have expressed our views and concerns about the transitional requirements for each of the standards individually. Where there are such concerns, for example where we do not consider that retrospective application is achievable, providing a long lead time to mandatory application does not change our views. The transitional requirements for each standard individually must result in requirements which can be practically applied and which result in useful information that meets a cost/benefit test. We raise some specific additional concerns with IFRS 9 in appendix 1 to this cover letter (as part of our answer to Question 4) since we do not consider that meaningful restated comparative information can be produced under the existing transitional provisions.
• As regards the implementation approach and timetable (effective dates for the new requirements and early adoption), we prefer the single date approach, with a mandatory effective date being 1 January 2015 at the earliest. Considering the inter-relations between some of the standards, we are not in favour of permitting early adoption, except insofar as amendments to IAS 19 and IAS 1 are concerned (as they are minor changes to existing standards).

• For international convergence considerations, using the same effective dates and transition methods for comparable standards issued by the IASB and the FASB respectively should not be a prerequisite; it is only preferable.

• In our opinion, first-time adopters of IFRSs should be authorised, as an exception to the principle stated above, to early adopt the new requirements at their date of transition to IFRSs.

Our answers to the specific questions raised in this RFV are presented in the attached appendixes.

We would be pleased to discuss our comments with you and are at your disposal should you require further clarification or additional information.

Yours sincerely

Michel Barbet-Massin

Head of Financial Reporting Technical Support
Appendix 1: detailed answers to the questions raised in the RFV on Effective Dates and Transition Methods

Background Information

Q1. 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).

Mazars is an international, integrated and independent organisation, specialising in audit, accounting, tax, law and advisory services. Our firm primarily audits financial information prepared in accordance with IFRSs.

Mazars can rely on the skills of 13,000 professionals in the 61 countries which make up its integrated partnership on the five continents.

Our practice focuses both on private and public entities.

As auditors and financial advisors, we will have to ensure that all our staff receive sufficient training on the new accounting standards so that they can continue to provide high quality services to clients.
Preparing for transition to the new requirements

Q2. 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?

In our opinion, the proposals which are likely to require more time to learn about the proposal, train personnel, plan for, and implement or otherwise adapt are:

- Financial instruments (IFRS 9), especially for financial institutions;
- Insurance contracts;
- Leases;
- Revenue from contracts with customers.

Conversely, the proposals relating to Consolidation, Fair value measurement, Joint arrangements, Post-employment benefits – Defined benefit plans and Presentation of items of other comprehensive income should require less time to implement since we feel the changes made compared with the previous requirements should be more limited. Nevertheless, as stated in our answer to Q5, this does not imply that we are in favour of differentiating the mandatory effective dates (though we would agree, in some cases, to permit early adoption).

(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?

Based on discussions with our clients, we understand that the cost of the transition to the new requirements could be very high, given that it will imply among others:

- significant IT and procedural changes, for instance for implementing the new financial instruments, insurance contracts or revenue recognition requirements;
- a necessity for training personnel at all levels of the reporting entity: financial services but also sales teams (for revenue recognition of the products or services sold) or HR teams (for changes to rewards, …);
- a need for rethinking financial communication and renegotiating all debt covenants;
- a need for users (analysts, tax and regulatory authorities) to rethink their models.
Q3. 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 jurisdictions, IFRSs are used as the primary GAAP by domestic listed and unlisted companies. This implies that any major change to the way financial statements are prepared could significantly impact for instance taxation, dividend distribution, profit-sharing agreements, debt covenants etc.

As auditors we consider that the new requirements that the IASB and the FASB are proposing will probably impact our audit approach since many of these requirements imply that entities use even more management’s judgment or estimations.

For instance, under the leases project assets and liabilities recognised by lessees and lessors would be measured on a basis that (a) assumes the longest possible lease term that is more likely than not to occur (taking into account the effect of any options to extend or terminate the lease) and (b) uses an expected outcome technique to reflect the lease payments, including contingent rentals and expected payments under term option penalties and residual value guarantees, specified by the lease. We believe such requirements will create significant areas of uncertainties for auditors even if it is too early, at this stage, to anticipate a need for change in auditing standards.

Financial institutions may also face specific issue related to the current regulatory projects on Solvency for insurance companies and Basel III for the banking industry. Regulators will need to consider whether the changes to accounting standards may impact their information requirements or whether they need accounting numbers to be adjusted to meet their requirements.

Q4. 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.

We have no other remarks on the transition method as proposed for each project than those already expressed in the comment letters we sent to the IASB in the past few months (see appendix 2) except for IFRS 9 (see below). Indeed, we consider that the context of a broad implementation plan with a later transition date should not change the comments we expressed earlier, especially on practical difficulties of implementation.

Having said that, given the major changes that are expected from the forthcoming new IFRSs, we would recommend the IASB to require the disclosure in a specific note to the financial statements (similar to the one required by IFRS 1 paragraph 23 in case of a first-time adoption of IFRSs) of all the identified impacts of the first-time application of these new standards. This
will enable users of financial statements to well understand the new requirements. It will also improve comparability among entities.

As regards the financial instruments project, we would like to make the following comments:

1. The transition to IFRS 9 will be complex. The existing standard already has complex transition reliefs, the transition to an expected loss approach to impairment is likely to have significant issues and hedge accounting is, by its nature, prospective. Since the standard is not yet complete, it is difficult to consider all the potential transition issues. Nevertheless, it seems clear that the final IFRS 9 that incorporates all the phases will need to have a coherent approach to transition at a single date. This would be consistent with our view of a single implementation date of 1 January 2015.

2. The existing transition requirements for classification and measurement of financial assets work differently to a full retrospective application. This is because the classification is meant to be determined as at the date of the opening balance sheet of the current reporting period (based on facts and circumstances at that time) and then this classification is applied (with some modifications) to the opening balance sheet for the first comparative period presented. As a result, the IFRS 9 classifications cannot be applied to financial assets that did not exist at this date of initial application but existed before and thus are needed to be included in the comparative financial statements. These financial assets continue to be accounted for under IAS 39. As a result the opening balance sheet for the earliest comparative period presented will include a mix of financial assets under both IFRS 9 and IAS 39. This results in practical difficulties in separating the comparative balance sheets into assets that exist at the date of transition and those that do not and keeping track of financial assets in what may be open portfolios. More importantly, comparatives that contain a mix of different classification and measurement requirements for financial instruments are at worst misleading to users. At best, we are not convinced of the value to users of comparatives that include a mix of financial assets under IFRS 9 and IAS 39, particularly coupled with some of the other potential exceptions to retrospective application such as using the fair value of financial assets as a proxy for amortised cost in the comparative periods. It seems unlikely that the costs involved in producing the comparatives would be worth the benefit to users.

3. We suggest that the IASB should discuss the transition to IFRS 9 with any companies (and their analysts) that have applied the existing standard. Further outreach with users may be helpful in determining how they would interpret comparatives that were not, in fact, comparable. An analysis of the research into the initial transition to IFRS in Europe may also be helpful. It is our understanding that users were generally content with the information they received under IFRS 1 even though comparatives were not required for IAS 39. If the costs of producing comparatives are likely to exceed the benefit to users, there would be strong arguments for an initial application of IFRS 9 by restating and explaining the opening balance sheet as at the date of transition but not restating financial instruments in comparative periods.
Effective dates for the new requirements and early adoption

Q5. 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).

We prefer the single date approach because we believe this approach will be less time consuming for preparers, users, regulators, standard-setters and auditors in the sense that it will be easier to adapt to a new set of standards all at once. Most of the projects included in the table in paragraph 18 of the Request for Views (except for the amendments to IAS 19 and IAS 1) represent such a major change that we consider it is better to have, in a way, a new transition to IFRSs (for entities that already prepare their financial statements under these standards). As stated in our answer to question Q4, if accompanied by appropriate disclosures, financial statements prepared under the new standards will be best understandable if all new IFRSs become effective at the same date. Besides, comparability among entities and over time will be increased.

(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?

In our opinion, in case the single date approach is retained by the IASB, the mandatory effective date of most of the projects listed in the Request for Views should be 1 January 2015 at the earliest. Be that as it may, the global mandatory effective date should be at least three years after the final standard in the package under paragraph 18 has been issued, so that possible IASB’s delays do not lead to reducing preparation time. This would apply to all these projects, except for Post employment benefits – Defined benefit plans and Presentation of items of other comprehensive income. Actually, we believe these two projects are quite limited; thus companies should not be prevented from applying the amendments to IAS 19 and IAS 1 respectively at an earlier date.

We believe 1 January 2015 is well positioned to enable the IASB and the FASB to complete their joint projects for convergence purposes in satisfactory conditions. We fear that rushing things too much may be prejudicial to the quality of the new IFRSs. We well understand that the deadline of June 2011 is important. Though, in our opinion, the due process, field-tests and outreach activities are even more important to ensure that the new requirements are widely accepted and reflect the stakeholders’ views appropriately.

Besides, we note that in some jurisdictions, comparative information requirements are more demanding than IAS 1. For instance, in the European Union, the ‘Prospectus Directive’ imposes on entities presenting two years of comparative information (instead of one year required by IAS 1). Given that IAS 1 now requires entities to present a statement of financial
position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively, an effective date of 1 January 2015 will imply presenting a complete set of financial statements (including notes) at 31 December 2015, 31 December 2014 and 31 December 2013, plus an opening balance sheet at 1 January 2013 (that is 31 December 2012) for European entities. In practice, entities will thus have very little time to adapt their financial reporting system to the new requirements and to start collecting data in order to be able to present this comparative information.

Last but not least, as regards the financial instruments project, we note that the IASB repeatedly undertook to give three years to entities to collect data in order to be able to comply with the new requirements of the expected loss impairment model. Since the IASB and the FASB are about to publish joint proposed approach to accounting for credit losses, we fear that the project’s phase on impairment methodology will not be completed by June 2011. As regards the completion of IFRS 9, since the IASB has not yet published its proposals on ‘macro-hedging’, we doubt the final amendments to IFRS 9 will be available before 2012.

In this context, assuming IFRS 9 could be completed before 2012 starts (which at this stage could seem unlikely), 1 January 2015 appears to us to be the earliest reasonable global effective date acceptable for the financial community.

(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.

Not applicable considering our answer to question Q5 (a) above.

(d) Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

No.

Q6. 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)?

Except for the amendments to IAS 19 and IAS 1, we believe the IASB should not give entities the option of adopting the new IFRSs in the package under paragraph 18 that will be published in the coming months before their mandatory effective date, except for those which

1 Please refer to our answer to question Q2 (a)
represent minor changes to the existing standards. This banning will ensure comparability among entities and over time.

As regards IFRS 9, we are aware of entities which have already early applied the requirements on classification and measurement of financial assets, as it is currently permitted by the standard. We are of the opinion that early adoption of phases of this standard should no longer be permitted before the IASB issues the final standard. However, we would not change the accounting for entities which have already early adopted IFRS 9.

**International convergence considerations**

**Q7. 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?**

As we understand it, if the SEC were to authorise US companies to prepare their financial statements under IFRSs in the near future, these companies would have to apply IFRS 1 as any other first-time adopter. In such a scenario, our answer to Q8 below applies.

Thus, the question of whether the IASB and the FASB should require the same effective dates and transition methods for their comparable standards is not crucial to us. Currently, two sets of standards exist. If this coexistence were to last longer than considered to date, the same effective dates would be preferable and transition methods should be the same in order to improve comparability among US companies and companies using IFRSs. Nevertheless we think it is more important that the IASB does what is right for its own constituencies rather than facilitate convergence at all costs.

**Considerations for first-time adopters of IFRSs**

**Q8. 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?**

In our opinion, the IASB should permit early adoption of the new IFRSs for first-time adopters of IFRSs, as an exception to the general principle set out in our answer to question Q6 above. It would be a waste of time and money for these first-time adopters to apply standards at the date of transition to IFRSs that are about to be significantly amended or superseded in the near future.
Appendix 2: Mazars’ previous comments on transition requirements

- **Consolidation:**

  We have not yet commented on the transition method presented in Appendix C of the staff draft on Consolidated Financial Statements (the forthcoming IFRS 10).

  We agree with the limited retrospective transition method. However, we recommend that the Board give additional guidance in case application of the requirements of the new IFRS on consolidation for the first time results in an investor consolidating several investees that were not consolidated in accordance with IAS 27 and SIC-12. Actually, the investor may have sufficient information to apply this IFRS retrospectively for some investees while for others impracticability may be retained if sufficient information is not available. In our opinion, such situation will result in presenting comparative information that will not be comparable for all the periods presented.

  **Example:**

  Entity Z holds investments in entity F1 and entity F2. Entities F1 and F2 were not consolidated in accordance with IAS 27 and SIC-12.

  The first application of IFRS 10 results in entities F1 and F2 being consolidated by entity Z.

  Entity Z’s reporting date is 31 December 2011. The consolidated financial statements of entity Z are presented with two comparative periods, as the regulation in the jurisdiction of entity Z requires it (i.e. at 31 December 2010 and at 31 December 2009).

  Entity Z has sufficient information to apply IFRS 10 retrospectively for entity F1 which is deemed to have been acquired in 2006.

  Entity Z does not have sufficient information to apply IFRS 10 retrospectively for entity F2. In this case, the deemed acquisition date is the beginning of the earliest period for which application of the requirements in IFRS 3 are practicable, which is 1 January 2010.

  In this situation, 2010 and 2009 will not be comparable.

- **Insurance contracts:**

  We disagree with the proposed transition treatment as it will prevent an insurer from recognising gains from its current contracts in profit or loss.

  Transition rules should allow retrospective application (full or simplified methods), so that the balance of the residual margin on contracts in force at the date of transition is subsequently recognised in profit or loss.

  We support the alignment of the effective date of the future IFRS on insurance contracts and of IFRS 9 as it is necessary for entities to take into consideration the measurement of both their financial assets and their insurance contracts at the same time. In this respect, entities may
need to modify their classification of assets under IFRS 9 and as such, would benefit from not having to do it twice.

- **Joint arrangements:**

  Our previous comments on the joint arrangements project are not reminded here since the exposure draft was issued a long time ago and since the proposals made by the IASB have since been deeply modified.

- **Leases:**

  We agree with the Board’s proposal that lessees and lessors should recognise and measure all outstanding leases as of the date of initial application using a simplified retrospective approach.

- **Revenue from contracts with customers:**

  On the principle, we agree that the final standard should be applied retrospectively. However, we believe this retrospective application may be impracticable (as defined in IAS 8) for entities that conclude very long term contracts. We also recognise that prospective application on new contracts concluded after a fixed date would cause confusion for users and a lack of comparability between entities.

  Thus, we would favour some transitional provisions, permitting to apply retrospectively the provisions of the ED only to performance obligations that are being performed or to be performed in the future at the beginning of the earliest comparative period (when practicable). In that case, revenue related to performance obligations already performed at the beginning of the earliest comparative period would not be changed even if some of the performance obligations in the same contract are still being performed or to be performed.

  We also believe the timing of recycling of foreign currency hedges could be impacted if revenue is modified. For instance, in a cash flow hedge, if revenue is recognised later under the provisions of the ED than under the current provisions, we believe that the timing of recycling of OCI is modified. In that case, we would also favour some transitional provisions to avoid too much complexity.