EBF Ref.: D2347D
Brussels, 2 February 2011

Set up in 1960, the European Banking Federation is the voice of the European banking sector (European Union & European Free Trade Association countries). The EBF represents the interests of some 5000 European banks: large and small, wholesale and retail, local and cross-border financial institutions.
The EBF is committed to supporting EU policies to promote the single market in financial services in general and in banking activities in particular. It advocates free and fair competition in the EU and world markets and supports the banks' efforts to increase their efficiency and competitiveness.

EBF position on IASB Request for views on Effective Dates and Transition Methods

Key Points

- It is expected that the implementation of the completed revised IFRS 9 will require a considerable amount of resources, both in terms of time and financially. The issues regarding the transition methodology and disclosures are closely related to the sections of the standard yet to be agreed and will need to be addressed accordingly. Taking into account the delay in the IFRS 9 project, it is necessary to review the requirements to restate financial statements. The effective date for financial instruments project should be postponed to 2015, provided that no further delay in the project is envisaged.

- The exposure draft on leasing will impose on users, lessors and lessees a significant burden considering the extent of the proposed changes in the accounting methodology and the extension of the disclosures to adopt in the preparation of the financial statements.

- The EBF members prefer a single effective date approach for all standards. The effective date for all new standards should be 1 January 2015 earliest. This applies particularly for the interrelated standards on financial instruments (IFRS 9), leases, insurance, fair value measurement and revenue from contracts with customers. While the EBF position is to implement the entire IFRS 9 at the same time, some members expressed interest in earlier adoption of the new requirements of IFRS 9 on the presentation of movements in the fair value of liabilities designated at fair value relating to own credit.

- In view of the potential complexity of the task, the judgements involved and the possible disclosure requirements involved, we can also see a case for a 2015 effective date for the standards on consolidation and joint arrangements.

- As projects related to post employment benefits, defined benefit plans, presentation of OCI are not directly related to each other and to other standards, they could be taken into consideration for standalone implementation before January 2015. However,

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considering the number of standards under development, the EBF is not aware of any strong demand for mandatory adoption of these standards prior to 2015.

- We support full retrospection *without* restatement of comparatives, except where there is a clear justification for prospective-only adoption, including hedging and fair value measurement, for which restatement of comparatives would not be relevant. Specific reliefs and practical expedients could be considered on a standard by standard basis where there are difficulties with retrospective application, for example, for some leasing contracts.

- Considering all the IFRS revision together, the implementation cost could be compared to cost of the first time adoption of the IFRS.

Answers to the specific questions raised in the Request for Views

Q1.
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.

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(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.

The primary activity of EBF members is banking business. Together, EBF member banks account for over 80% of the total assets and deposits and some 80% of all bank loans in the EU. EBF members employ 2.4 million people.

(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.

n/a

(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.

n/a

(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).

Financial instruments project is expected to require the most resources for implementation, followed by the leasing and insurance standards which substantially depart from the current practices.

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?

It is estimated that the IFRS 9 would require at the minimum 2 to 3 years implementation time and significant IT investments. The implementation time depends on the nature of the changes proposed, in particular in relation to the impairment methodology. Also, it has to be taken into account that in some jurisdiction, the implementation can only start after the endorsement process which may take additional six months from the time of the issuance of the final standard by the IASB.

(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 majority of the cost for implementing the new standards will be IT related coming from changing the existing and developing new IT-systems. Such changes would also consume substantial personnel resources and require education of the staff as well as analysts. Considering that only phase 1 of the IFRS 9 project is completed and may still be subject to amendments resulting from subsequent phases, as well as the uncertainty related to phases 2 and 3, it is impossible to evaluate at this stage the exact time and effort that will be necessary for implementation. However, taking into account all the revised standards which have to be implemented, the implementation cost could be compared to cost of the first time adoption of the IFRS.

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?

EBF members expressed concerns about the interaction with capital adequacy regulations as well as Solvency II regulation. The dialogue between regulators and the standard setters is important to ensure coordination between accounting and regulatory requirements and to avoid significant increase of the reporting burdens caused by the differences in reporting requirements. Potential concerns arising from the conflicts with tax laws and the consequences from the proposed changes to the accounting standards will have to be further analysed in particular in countries, where IFRS is used for statutory financial reporting.

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.

In general, prospective adoption is more difficult for users and preparers alike, as it means that only new transactions after the adoption date follow the new standard, and pre-existing transactions follow old standards, requiring parallel running of systems and a mix of accounting bases in the financial statements until the old transactions run off. Full retrospection, on the other hand, restates the opening position as if the standard had always been applied, and all similar transactions are accounted for on a like for like basis going forward. Prospective application does make sense however, for certain standards, including hedging and fair value measurement.

Full retrospection does not have to mean restatement of comparatives. While restatement of comparatives is ideally the best answer for users, in this case the scale of change is so great that we believe that this may not be possible at a reasonable cost or timeframe.

Accordingly, we support full retrospection *without* restatement of comparatives, except where there is a clear justification for prospective-only adoption, including hedging and fair value measurement, for which restatement of comparatives would not be relevant. Specific reliefs and practical expedients could be considered on a standard by standard basis where there are difficulties with retrospective application, for example, for some leasing contracts.

The EBF disagrees with the transition rules in the ED for insurance contracts. The proposed transition requirements need to be abandoned since they will effectively eliminate all future profits in the present insurance business. The normal requirements in IAS 8 should be required when the standard is implemented.

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).**

In general the EBF members prefer a single date approach for all standards. A single effective date is necessary in particular for the interrelated standards on financial instruments (IFRS9), leases, insurance, fair value measurement and revenue from contracts with customers. The mentioned standards would have the most significant impact on the financial industry and would require the longest implementation period.

(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?

As the extent of the required changes is not entirely clear at this point in time, it is difficult to estimate the implementation time exactly. However, based on the existing exposure drafts, it is believed that at least three years implementation time will be necessary. This would lead to an effective date of 1 January 2015. In view of the complexity of the task, the judgements involved and the disclosure requirements there may also be a case for a 2015 effective date for the standards on consolidation and joint arrangements. This timetable assumes that relief from restating comparative information is given, otherwise the necessary implementation time could be significantly longer given the scale of the changes.

(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.

While the EBF prefers a single date approach in general, projects related to post employment benefits, defined benefit plans, presentation of OCI and revenue, which will not have such a major effect on financial reporting and which implementation will not be that complex, could be taken into consideration for standalone implementation before January 2015.

(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)?

While the EBF is generally supportive of the early adoption option, it is believed that the amount and complexity of the new standards would require sufficiently long time for implementation. Therefore it is unlikely that there will be a demand for early adoption. The main benefit of implementation of the standards at single day would be the comparability and facilitation of the external communication. However we believe that in certain situations, e.g. for first-time adopters of IFRS, or for application of provisions relating to the fair value option for liabilities (own credit element), an early adoption should be possible.

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?

While the convergence is desirable, this should not override quality aspects and should not come at the expense of companies already applying IFRS. If convergence towards high quality standards is achieved, it would be beneficial to align effective dates and transition methods. This removes the prospect of groups reporting under IFRS having to report on a substantially different basis for their US subsidiaries due to timing differences. If, on the other hand, the FASB diverge from the IASB on some globally accepted principles, the EBF would not see any need for alignment of the effective dates and transition periods for standards which differ in substance.

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?

For first-time adopters there is a balance to be had between international comparability and having to reflect fundamental changes in accounting standards within a relatively short period of time. We therefore see grounds for finding a basis for early adoption which suits their needs, including the option of adopting the new standards before their mandatory effective date.

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