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

Email: commentletters@iasb.org

31 January 2011

Dear Sir David,

Re: Request for Views on Effective Dates and Transition Methods

Deloitte Touche Tohmatsu Limited ("DTTL") is pleased to comment on the International Accounting Standards Board's (the "Board's") Request for Views on Effective Dates and Transition Methods (the 'Request for Views').

We strongly support the issuance of the Request for Views to assist the Board in understanding the expected time and effort involved in adopting future IFRSs. The unprecedented level of standard setting makes these types of outreach activities critical to ensuring that the Board's various constituency groups can appropriately manage the expected significant changes to IFRSs.

Given the significance and scope of the projects that are the subject of the Request for Views, we believe that the Board's implementation plan needs to incorporate flexibility due to the diversity of the constituency groups which are likely to be affected and to serve the different needs of constituents, both in respect of differences between constituency groups and differences within constituency groups due to size, industry and territory. Without flexibility, the needs of some constituents will not be addressed, thus jeopardizing the quality of financial information produced. The Board should aim for an approach which facilitates orderly implementation of these changes by all constituents with the objective of high quality financial information based on robust data as this is in the best interests of all its constituents, including auditors. We therefore recommend that the Board sets a mandatory effective date that is far enough into the future while allowing entities to adopt standards early. Such an approach would give the necessary flexibility for entities to adopt either a single date or a sequential approach.

A single date approach to adoption rather than a sequential approach may be more suitable for certain entities. For example, for some entities that will soon be first-time adopters of IFRSs a single date approach would avoid having to deal with multiple major changes in a short period of time. Also, a single date approach would work better for some, often larger, existing IFRS reporters by enabling them to deal with any issues arising – such as changes to contracts affected by multiple IFRSs – as part of a single project. In contrast, a sequential approach would work better for smaller, entities by enabling them to manage the resources required for implementation. In some instances, a sequential approach may be the only realistic option due to resource or internal systems constraints.

The Board should link the provisions for early adoption of certain of the future IFRSs because of their relationship to one another or because an entity's business model would require standards to be adopted at the same time. For example, we believe that the provisions for early adoption of any revised lessor accounting requirements should be linked to the provisions for early adoption of the future revenue recognition standard such that a lessor would not be able to adopt the new leases standard without also adopting the future revenue recognition standard. Other examples of possible linkage would include the new consolidations and joint venture standards and the new insurance standard and IFRS 9 *Financial Instruments*.

The mandatory effective date should be chosen on the basis of the characteristics of the future proposed IFRSs, transitional provisions and interdependencies between those standards with the aim of effectively balancing the timeliness of enhanced financial reporting with a realistic timeframe for accurate implementation to achieve high quality financial information. For example, the resources needed to apply each IFRS (staff training, development of accounting policies and modification of information systems) and the need to manage any impact on, for example, debt covenants or sales contracts should be key considerations in determining the appropriate transitional provisions and mandatory effective date. The comments received from the preparer community will be particularly important in helping the Board understand these issues. From an auditor perspective, the more complex standards will require us to spend more time on training our professionals, developing and publishing our guidance and developing audit tools and resources. In addition to considering complexity, the Board should consider the nature of the improvements each future IFRS would have on financial reporting.

Our detailed responses to the Request for View questions are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 207 007 0884.

Sincerely,

Veronica Poole
Global Managing Director
IFRS Technical

<u>Appendix</u>

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.

The member firms of DTTL provide audit, consulting, financial advisory, risk management and tax services, including audit of financial information prepared in accordance with both IFRSs and US GAAP and assistance in first-time adoption of both frameworks.

(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.

This question is not applicable.

(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.

The member firms of DTTL employ approximately 170,000 people worldwide in nearly 150 countries and focus on both public and private entities.

(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.

This question is not applicable.

(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).

The degree to which each of the proposed new IFRSs is likely to affect the member firms of DTTL will largely depend on the complexity of the new IFRSs and the extent to which they change current practice. For each proposed new IFRS, the member firms of DTTL will need to train their professionals on the new requirements, develop guidance, develop auditing tools and resources and publish any necessary internal and external materials.

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?

There is significant uncertainty in how the future proposed IFRSs will be scoped and the guidance that will be included in the final IFRSs. This will drive how much time and effort will be necessary for their implementation.
In broad terms, it seems likely that implementation of each of the projects listed will require significant resources. The revenue and leasing projects and some elements of the financial instruments project are likely to impact, to a greater or lesser degree, a wide variety of entities. Resources will be needed to train for, plan and implement both the preparation and audit of financial statements for those entities. The insurance and fair value measurement projects and other elements of the financial instruments project may impact a narrower

range of entities but be pervasive to the financial reporting of those entities. Accordingly, a high level of resource may be needed for implementation by those entities.

(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?

For each proposed new IFRS, the member firms of DTTL will incur costs to train their professionals on the new requirements and develop auditing tools and resources. We may also find it necessary to increase our professional resource base to address these activities. These costs and their relative significance will be driven by the level of complexity of the new IFRSs and the level of impact on each member firm's client base.

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?

The new IFRSs are likely to have significant effects on the broader financial reporting system. Regulators and enforcement bodies in a number of industries may need to make changes as a result of the issue of the new IFRSs. For example, regulators for banks and insurance entities may find it necessary to make changes to compliance tests, regulatory reporting and capital requirements or to align the timing of changes to these requirements with changes to IFRSs (this is illustrated by the draft 'Basel III' regulations and the European Union's 'Solvency 2' reform, which has a stated objective to align its valuation rules as closely as possible to IFRS principles for insurance liabilities). Debt agreements that contain covenants based on financial statements prepared using IFRSs may need to be amended because of the changes resulting from the new IFRSs. A jurisdiction's tax code may be based on IFRS accounts or incorporate certain aspects of IFRS and therefore may need to be amended to incorporate the new IFRSs. Contracts may need to be amended to consider the new IFRSs.

It is uncertain at this time what changes to auditing standards will be necessary as a result of the new IFRSs. Some of the new IFRSs may extend the use of accounting judgements and estimates (such as estimating renewal options and contingent rentals) as well as introduce new accounting concepts such as the "business model" which will need to be brought in to auditing methodology.

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 believe the mandatory effective date should be selected not only on the basis of the characteristics of proposed IFRSs, but also taking into consideration interdependencies between those standards and their transitional provisions. The resources needed to apply new IFRSs, the need to manage any impact on, for example, debt covenants, sales contracts and key performance measures used in share-based payment remuneration schemes should be some of the key considerations in determining the appropriate transitional provisions and the mandatory effective date. We agree that the Board should weigh the benefits of inter-period comparability against the cost and practicability of retrospective application. We do not think that concerns over comparability should necessarily preclude permitting (although not requiring) retrospective adoption. Indeed in our comment letters on the *Leases* and *Insurance Contracts* exposure drafts, we recommend that the Board consider providing the option to use retrospective application. However, it is difficult for us to provide a recommendation on specific transition methods at this time due to the significant uncertainty in the scope of the future proposed IFRSs, what guidance will be included in the final IFRSs and therefore what interdependencies will exist between IFRSs and their transitional provisions. In considering the proposed IFRSs as a group, the Board should consider interdependencies between requirements of the new proposed standards and interdependencies between their transitional provisions.

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 believe the Board's approach should be flexible enough so as to allow *all entities* to apply either a single date or sequential approach. This can be achieved by setting the mandatory effective date far enough into the future to give entities adequate time to prepare for adoption but allowing entities to adopt early. If there is an extended period of time between issue of a standards and its mandatory effective date, during which desirable clarifications or updates are identified, the Board should consider incorporation of these prior to the mandatory effective date.

A single date approach to adoption rather than a sequential approach may be more suitable for certain entities. For example, for some entities that will soon be first-time adopters of IFRSs a single date approach would avoid having to deal with multiple major changes in a short period of time. Also, a single date approach would work better for some, often larger, existing IFRS reporters by enabling them to deal with any issues arising – such as changes to contracts affected by multiple IFRSs – as part of a single project. In contrast, a sequential approach would work better for smaller, entities by enabling them to manage the resources required for implementation. In some instances, a sequential approach may be the only realistic option due to resource or internal systems constraints.

(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?

We cannot recommend a mandatory effective date at this time because there is significant uncertainty in how the future proposed IFRSs will be scoped and the guidance that will be included in the final IFRSs. This will drive how much time and effort will be necessary for implementation. We do, however, note that the effective date of periods beginning on or after 1 January 2013 envisaged in certain of the Board's proposals appears unrealistic in light of the possible interactions with IFRSs which have not yet been finalised.

In addition, the Board should consider the time period necessary to complete the endorsement process for the new IFRSs in those jurisdictions that require such endorsement.

(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.

We do not believe the Board should impose a sequential approach, but should allow entities to apply one through early adoption. However, as noted in Question 6, we believe the Board should link the provisions for early adoption of certain of the future IFRSs because of their relationship to one another or because an entity's business model would require standards to be adopted at the same time.

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

As commented under (a) above, we recommend that the Board adopts a flexible approach enabling entities to apply either a single date or a sequential approach to adoption by setting the mandatory effective date far enough into the future to allow entities adequate time to prepare for adoption but allowing entities to adopt individual standards early (subject to the consideration of linkages between standards highlighted in Question 6).

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)?

We believe *all entities* should be permitted to adopt early any of the future proposed IFRSs. We believe that the Board's implementation plan needs to incorporate flexibility due to the diversity of the constituency groups which are likely to be affected and to serve the different needs of constituents, both in respect of differences between constituency groups and differences within constituency groups due to size, industry and territory. Without flexibility, the needs of some constituents will not be addressed, thus jeopardizing the quality of financial information produced. We are cognisant of the effect this approach may have on comparability of financial statements but believe that the desire for comparability has to be weighed against the need for quality financial information.

Additionally, the Board should link the provisions for early adoption of certain of the future IFRSs because of their relationship to one another or because an entity's business model would require standards to be adopted at the same time. For example, we believe that the provisions for early adoption of any revised lessor accounting requirements should be linked to the provisions for early adoption of the future revenue recognition standard such that a lessor would not be able to adopt the new leases standard without also adopting the future revenue recognition standard. Other examples of possible linkage would include the new consolidations and joint venture standards and the new insurance standard and IFRS 9 *Financial Instruments.*

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?

We believe that ideally the IASB and FASB should have consistent plans for adoption of converged standards (encompassing effective date, options for early adoption, transitional provisions and linkage of standards) in order to enhance comparability of financial statements on a global basis. However, we recognise that FASB may determine that a different effective date may be appropriate in the US depending on the timetable for any move by SEC registrants to IFRSs. Therefore, notwithstanding our stated preference for converged adoption, we do not believe uncertainty or delayed implementations in the US should unduly delay the effective dates determined by the IASB.

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?

Given the number of jurisdictions that have recently adopted IFRSs or will be adopting IFRSs in the near term, consideration should be given to these jurisdictions and the effective dates and provisions for early adoption of proposed IFRS standards should be flexible to the degree that will avoid a 'second wave' of IFRS adoption for these entities by enabling them to apply the new standards as part of their transition to IFRSs. Therefore, we believe the Board should allow first time adopters of IFRSs to adopt the new standards early regardless of its decision on early adoption by other entities.

This approach may also be helpful in avoiding unintended consequences for first-time adopters. For example, a delayed mandatory effective date for the hedge accounting standard would give entities adopting IFRSs for the first time in the near future the choice of either adopting the hedging standard on transition (which may effectively restrict the use of hedge accounting due to the requirement in IFRS 1 *First-time adoption of IFRSs* for hedge documentation to be in place at the date of transition) or adopting it at a later date (and taking advantage of any transitional provisions of that standard).