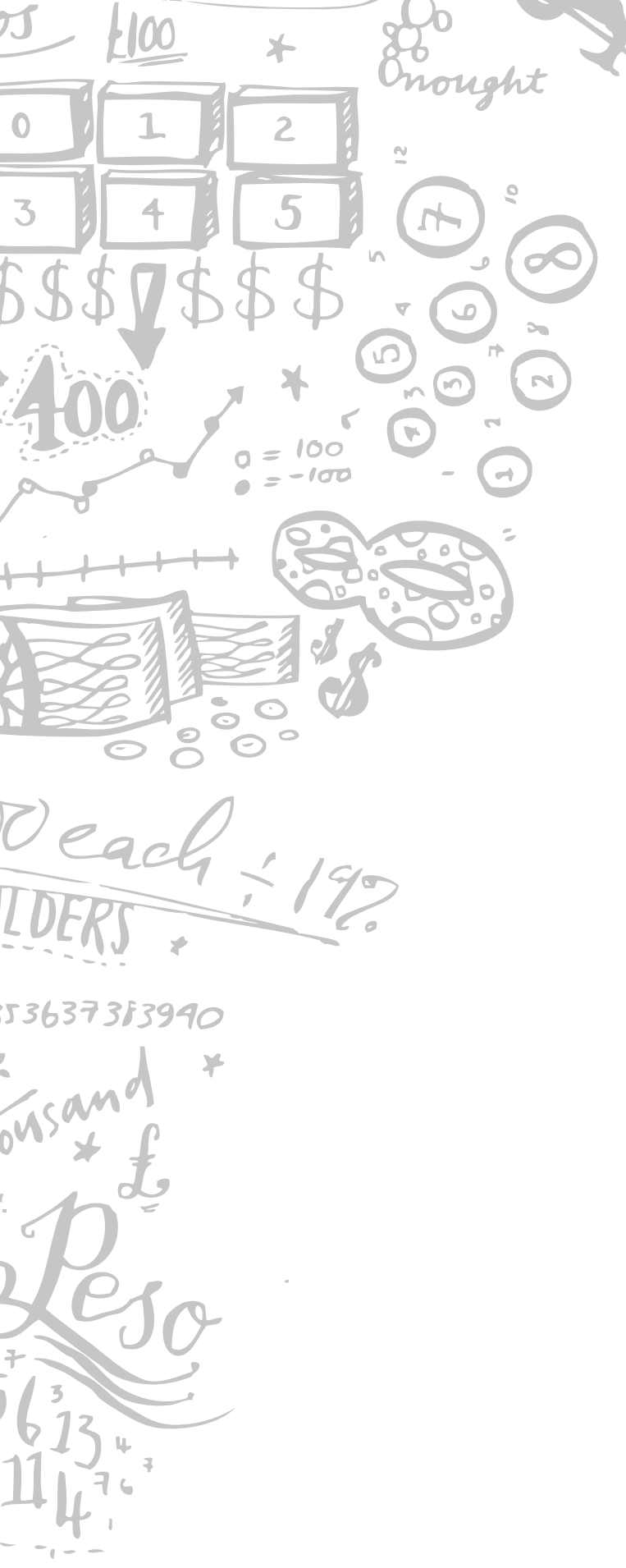


What to do next

IFRS 9 mandatory effective
date tentatively deferred to 2015

August 2011



What's new?

The International Accounting Standards Board (IASB) has tentatively decided to move the mandatory effective date of IFRS 9 *Financial Instruments* to annual periods beginning on or after 1 January 2015. Earlier application would continue to be permitted.

IFRS 9 currently provides a relief from the requirement to restate comparative figures for an entity which elects to early adopt the standard before 2012. The IASB also has tentatively decided not to provide further relief from restatement of comparative figures to periods beginning before 1 January 2015.

These tentative decisions do not address specific transition issues for any phase of the project to replace IAS 39 *Financial Instruments: Recognition and Measurement*, including the requirement not to apply IFRS 9 to items that have already been derecognized at the date of initial application, which the IASB has indicated it may reconsider.

The IASB published the proposal to defer the mandatory effective date of IFRS 9 in an exposure draft (ED) for public comment. This ED includes a question on the Board's tentative decision not to change the requirement in IFRS 9 for comparative figures to be presented for entities that initially apply IFRS 9 for reporting periods on or after 1 January 2012. The comment period of the ED closes on 21 October 2011.

What you need to know

The IASB has published an ED proposing to defer the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015, with earlier application permitted.

The IASB is seeking feedback on whether it should defer the mandatory effective date to 2015 and whether further relief from presenting comparative figures should be provided. The comment period of the ED closes on 21 October 2011.

Background

IFRS 9, as currently drafted, must be applied for annual periods beginning on or after 1 January 2013, including the presentation of comparative figures.

On 19 October 2010, the IASB and the US Financial Accounting Standards Board (FASB) (collectively, "the Boards") issued separate documents seeking input on the effective dates and transition methods for several new standards, primarily those that the Boards are developing jointly.

The objective of the IASB document, *Request for Views on Effective Dates and Transition Methods*, was to gather feedback to help the IASB establish appropriate effective dates and transition methods for the several new IFRSs. The key themes of the feedback received were that constituents (including regulators) would prefer:

- ▶ Sufficient lead time after the finalization of the last phase of IFRS 9
- ▶ A single effective date for all the phases of IFRS 9, as well as the revised IFRSs on insurance contracts, revenue recognition and leasing
- ▶ Extension of the relief from the requirement to restate comparative figures until the mandatory effective date of IFRS 9

The proposed deferral comes in light of the extension of the IASB's timeline for completion of the remaining phases of the project to replace IAS 39 beyond June 2011, the feedback received from constituents and the IASB's prior intention to allow entities to adopt all parts of IFRS 9 at the same time.

Impact of the proposed deferral

In addition to allowing entities sufficient time to make the necessary system changes and to prepare adequately for transition, the proposed amendment will permit entities to implement all the phases of the IAS 39 replacement project concurrently. This addresses a concern raised by preparers that they would like to be able to evaluate their classification and measurement decisions, such as the use of the fair value option, in light of the new impairment and hedge accounting requirements. The proposed change will also potentially align the effective date of IFRS 9 with the effective date of other forthcoming standards, such as those already mentioned.

The change in the mandatory effective date will help address concerns about the delay of endorsement of phase 1 of IFRS 9 (classification and measurement) by the European Union (EU). This is particularly the case for SEC filers who are required to report in accordance with IFRS as issued by the IASB. Absent this change and until IFRS 9 is endorsed by the EU, from 2013 these entities would be required to prepare two sets of financial statements: one set in compliance with IFRS as issued by the IASB for the SEC, including comparative information for the two previous years, and another in compliance with IFRS as endorsed by the EU.

The proposal will also allow the IASB sufficient time to fulfil its prior intention to expose the FASB's final standard on classification and measurement of financial instruments for comment by its constituents.

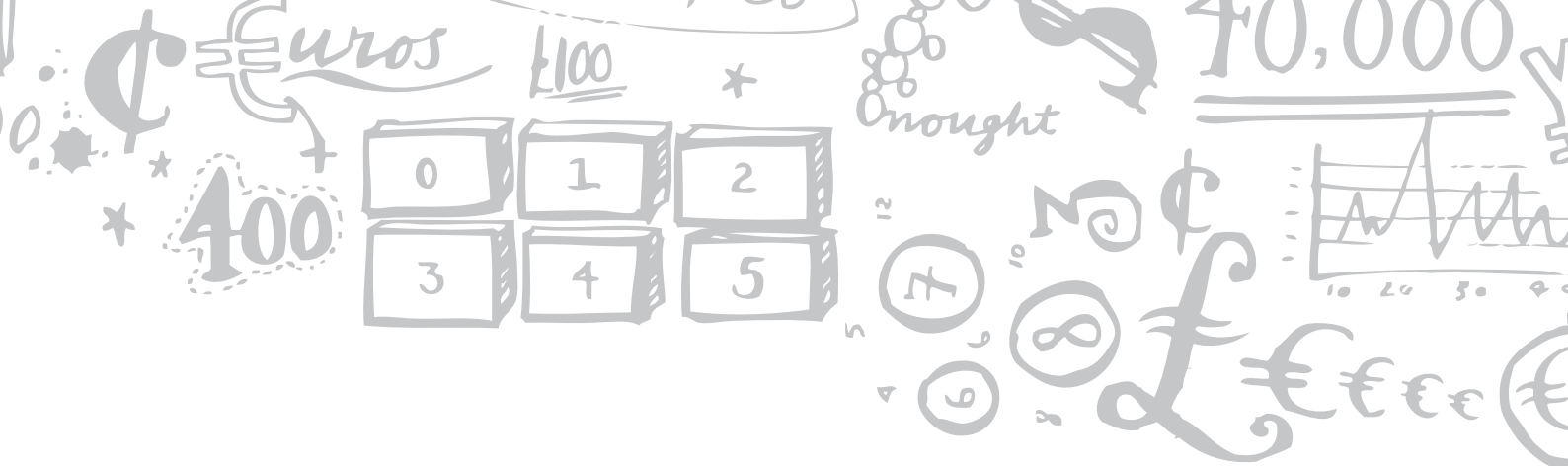


How we see it

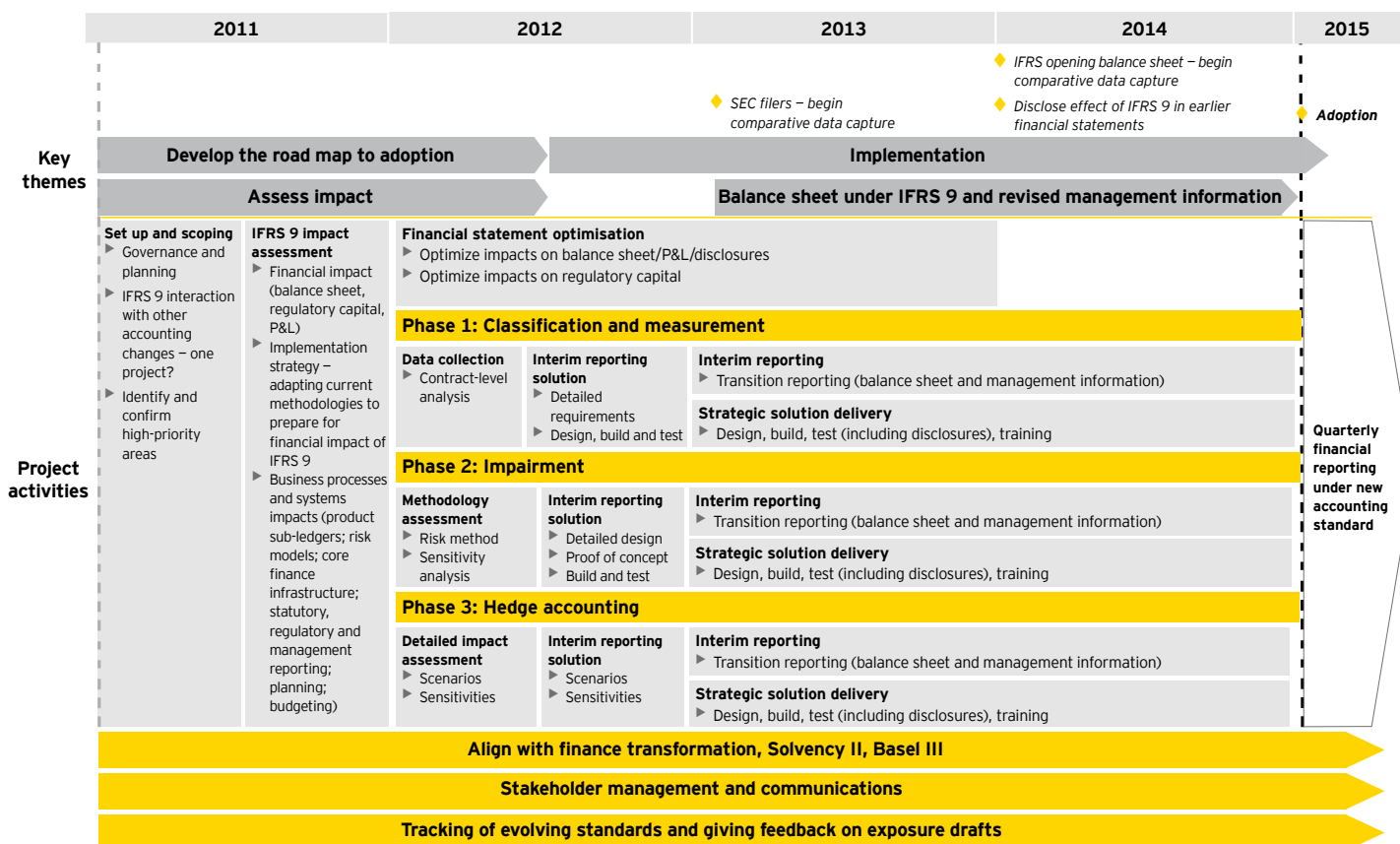
We fully support the IASB's tentative decision to move back the mandatory effective date of IFRS 9. If adopted as proposed, this change will be welcomed by most reporting entities.

However, we strongly encourage entities to continue their efforts to prepare for the transition for the following reasons:

- ▶ IFRS 9 will have a major impact on financial statements, key performance indicators, tax and regulatory capital. Entities need to understand both the implications of phase 1 and the proposals for impairment and hedge accounting in sufficient detail to be able to factor the proposals into their strategic decision-making, respond to the proposals and engage with regulators for the appropriate tax and regulatory capital treatment.
- ▶ For many entities, implementation of the new standard, especially the forthcoming impairment requirements, will require significant systems development that will take a number of years to implement. For SEC-regulated entities, even with a 2015 effective date, the first comparative period begins in only 17 months on 1 January 2013.



What does your IFRS 9 implementation road map look like?



Our experience working with entities that are currently assessing the impact of IFRS 9 suggests that it will take a significant amount of time to implement the changes in a robust and strategic manner. Many entities have included IFRS 9 implementation as a work stream within a large-scale accounting and regulatory change project. We also noted that entities are spending time during 2011 to strategically plan the implementation, particularly the forthcoming impairment model.



How Ernst & Young can help

We bring accounting, tax, regulatory, systems and IT professionals to your company to assist in assessing what the accounting changes mean to you. In the chart below, we outline issues and steps your company should consider related to accounting changes, as well as how we may be able to help you from initial assessment through to adoption.

Issues and steps	How Ernst & Young can help
Gain a general understanding of the new or proposed accounting standards.	<ul style="list-style-type: none"> ▶ Design and deliver a training session for company personnel on the accounting implications of the new or proposed standards. ▶ Share insights of IASB views, including interpretations.
Perform a preliminary assessment of the impact of the proposal on the company's financial statements and regulatory capital.	<p>Advise on your project maintenance:</p> <ul style="list-style-type: none"> ▶ Gathering necessary scoping information to implement the new or proposed standards ▶ Calculating the income statement impact of implementing the new or proposed standards ▶ Assessing impact on key financial ratios and performance measures ▶ Identifying shortfalls in available information to implement the new or proposed standards ▶ Assessing impact on regulatory capital <p>For a non-audit client, Ernst & Young can provide support, through the use of an automated tool, to determine the characteristics of financial assets for IFRS 9 classification. This tool is able to run queries through large data sets and identify features to help determine fair value classification using information from external data vendors. The use of this tool can reduce the time needed to analyze instruments that would require fair value classification based on characteristics of the instrument. This automated approach is also available for use on contractually linked instruments. For audit clients, Ernst & Young can use the tool to evaluate assessments made independently by company management.</p>
Benchmark the company against peers and others in the industry.	<ul style="list-style-type: none"> ▶ Provide observations of how others are approaching the new or proposed standards, problems they are identifying and solutions developed ▶ Assist in the evaluation of peers, competitors and industry disclosures and expected impact on the financial statements
Assess processes for data collection, internal controls and IT systems.	<ul style="list-style-type: none"> ▶ Provide observations and insights based on leading practices regarding ways the company could design its business processes, IT systems and internal controls to capture information necessary to apply new or proposed standards ▶ Provide criteria to consider in selecting IT packages, and assist in the selection process
Assess tax positions relating to the new or proposed accounting standards.	<ul style="list-style-type: none"> ▶ Assist in analyzing tax positions arising from adopting the new or proposed standards, reducing tax exposure and determining tax effects of any accounting changes
Plan for ultimate implementation of the new or proposed standards.	<ul style="list-style-type: none"> ▶ Advise on the implementation of the new or proposed standards using an established methodology ▶ Advise on your project maintenance and planning, including timeline, tasks and resource allocation
Advise management during the implementation.	<ul style="list-style-type: none"> ▶ Advise management where the new or proposed standards require careful use of judgment ▶ Review and provide input into accounting manuals and policies selected by management ▶ Provide you with coordinated support to Ernst & Young subject-matter resources (Regulatory, Tax, Finance Transformation, etc.) on a global basis
Communicate effect of implementation to stakeholders – analysts, regulators, shareholders.	<ul style="list-style-type: none"> ▶ Advise on developing a communications plan ▶ Advise on drafting communications



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