International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

31 January 2011

Submitted via the "Comment on a proposal" page at www.ifrs.org

Dear Sirs

IASB Request for Views on Effective Dates and Transition Methods

I am writing on behalf of AFME (the Association for Financial Markets in Europe) to respond to the IASB's October 2010 Request for Views on Effective Dates and Transition Methods (the "RfV"). AFME is, as you know, the leading European trade association for firms active in investment banking and securities trading; it was established in November 2009 as a result of the merger of LIBA (the London Investment Banking Association) and the European Branch of SIFMA (the US-based Securities Industry and Financial Markets Association), and thus represents the shared interests of a broad range of participants in the wholesale financial markets. We welcome the opportunity to respond to the RfV, and commend the IASB for actively consulting on the most appropriate implementation approach for this important group of changes.

You will be aware that we have already commented on the majority of the proposals covered by the RfV and that our most significant comments have, in many cases, related to the operational feasibility of the IASB's proposals[1] . Accordingly, if the proposed IFRS are issued as previously exposed, we would have significant concerns over the ability of our industry to implement all the required changes in a suitable time frame. We therefore strongly recommend that the Board engage in a further round of consultation on effective dates and transition methods once the new IFRS have been finalised.

We would also like to note that these standards are being implemented in the same general timeframe as a number of significant global developments in regulatory requirements. We are concerned that this combination, at a time when the global economy is still recovering from recession, will stretch many companies' resources to their limit.

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[1] See, for example, our 29 June 2010 response to ED/2009/12: Financial Instruments: Amortised Cost and Impairment, and our 15 December 2010 response to ED/2010/9: Leases.

We set out below our detailed responses to the questions set out in the RfV.

Question1

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).*

Answer:

Whilst AFME's members are both preparers and users of financial statements, this letter is written from the perspective of preparers.

Many of our members are EU-listed institutions reporting under IFRS, whilst others have US incorporated parent companies that report under US GAAP, but which use IFRS for the preparation of subsidiary financial statements in many jurisdictions; these subsidiaries can be large and complex and may have their own securities registered on one or more EU securities exchanges.

The primary business of our members, as stated above, is investment banking and securities trading. Many of our members also engage in a range of other financial service activities, including asset management.

Of the new IFRSs covered by the RfV, Financial Instruments, Fair Value Measurement, and Consolidation are pervasive to the securities trading activities of our members, whilst Revenue Recognition is important for fee and expense recognition in their investment banking and asset management businesses. Leases also represent a significant area for many of our members, some of whom are party to thousands of lease contracts as lessors and/or as lessees. The other proposed new IFRSs covered by the RfV will have varying degrees of effect on our members depending on their particular circumstances.

Question 2:
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?*
(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?*

Answer:
The proposals for Financial Instruments, Consolidation, and Leases will require the most significant implementation effort for our members. These proposals contain significant conceptual changes from the existing accounting requirements and/or require significant judgement to be exercised, both of which will require time to educate staff as well as to gain consensus across the industry and with auditors on specific detailed implementation issues not covered in the text of the standards. As the majority of the proposed standards are to be implemented retrospectively, this education needs to be completed before even the process of analysing existing transactions under the new requirements can begin. Education on the financial reporting impacts will be required not only for those with responsibility for accounting for the transactions, but also for management, and for those charged with governance.

Many of our members already have experience of implementing the FASB's consolidation requirements under SFAS 167, and have found the reconsideration of all entities for consolidation to be a very significant exercise.

In addition to the education effort, the Financial Instruments and Leases proposals will, in particular, result in substantial investment in a number of areas. These include:

- Development of processes to manage effective interest rate calculations: although our members have considerable experience with the application of the effective interest method, they have nevertheless struggled to develop systems and processes which can fully comply with the existing requirements. The expansion of this approach to Leases is therefore of major concern, and will require substantial IT effort.

- Development of the significant pools of data required to generate empirical probability distributions to deal with the shift to expected value calculations (expected credit losses, expected lease payments).

- Development of systems and processes to monitor financial instruments for basic loan characteristics, as well as to monitor compliance with the business model criteria in IFRS 9.

- The complexity of proposed impairment models may mean that education of existing staff is not enough – additional specialised resources may be required to understand the complexities associated with building the impairment models. These proposals may also necessitate changes to an entity's risk management systems.

- Development of systems to track events which might result in significant changes to expected lease payments and thus require re-measurement, and also to manage and reconcile revenue and expense allocated to bifurcated service contracts, as well as revenue and expense allocated to the lease against physical lease payments.

We are not aware that there is any commercially available software available to meet the requirements of the systems developments noted above, particularly those related to the implementation of the Impairment and Leasing proposals. This apparent lack of commercial software will further increase the cost and time required to develop such systems.

Question3:
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?

Answer:
The regulatory and tax reporting requirements are currently undergoing a period of significant change in many jurisdictions, and it is difficult to determine at this point the extent to which such changes will synchronise with, or conflict with, the proposed accounting changes.

Financial, regulatory, and tax reporting requirements reporting requirements do not necessarily have the same objective and the timing does not therefore need to coincide in all circumstances. However, where different systems are being developed simultaneously it is possible that the regulatory and/or tax requirements may be based on an out of date accounting treatment, and thus establish rules which do not fit with the accounting changes.

We have particular concerns where the balance sheet effects of the accounting proposals could have a significant impact on balance sheet focused requirements such as regulatory leverage ratios or liability-based bank levies. The proposals on Consolidation and Leasing could have significant balance sheet effects which would need to be taken into account in calibrating regulatory and tax requirements. For example, the classification of right of use assets under the Lease proposals as intangible assets could have a significant impact on regulatory capital ratios if regulatory reporting were simply to follow the accounting classification. The proposals for Netting of financial assets and liabilities, although not included in the RfV, will also be relevant in this context.

There remains significant uncertainty over the regulatory and tax implications of IFRS 9. For example, it is not yet known how the business model criterion in IFRS 9 will correspond to the trading book/banking book definitions within the Basel framework. Any difference could result in different measurement bases being used for accounting and for regulatory purposes. Although, as noted above, financial reporting and regulatory

reporting requirements do not need to coincide, unnecessary differences such as those which might arise solely as a result of the simultaneous development of the requirements should be avoided wherever possible.

As discussed in our comment letter on the Leases ED, the UK tax system is currently based on the definition for financing and operating leases and thus the proposed standard will either require a change to tax legislation or, if no such change is made, will require entities to continue to maintain systems to identify operating and finance leases for tax reporting purposes; similar situations are likely to arise in other jurisdictions.

We therefore believe that it is critical that sufficient lead time is allowed before implementation of the proposals to enable regulators and tax authorities globally to adjust their own requirements where necessary.

In addition to the regulatory and tax implications, the significant balance sheet changes could also affect debt covenants which will impact our members both as lenders and borrowers, requiring time to renegotiate contracts.

We have identified three examples of situations in which the proposed changes will require a significant increase in the exercise of judgement by management: i) the application of de facto control and the evaluation of control other than through voting rights in the Consolidation proposals; ii) the calculation of lifetime expected losses in the Impairment proposals; and iii) the expected value of lease payments. These, and any other similar, areas will present additional challenges for auditors and may necessitate some revision to auditing standards.

Question 4:
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.

Answer:
We are generally supportive of retrospective application for new standards, as this improves comparability in financial reporting. However, the consequence of this is that the 'true' effective date of any new standard is, for entities presenting a single comparative period, one year prior to the actual effective date (e.g. if a standard is effective for an accounting period beginning 1 January 2011, it must be applied to the opening balance sheet for the comparative period beginning 1 January 2010). Accordingly, retrospective application extends the timeline required for implementation of the standards and thus must be taken into account in setting the effective dates for the standards.

A practical option to alleviate the comparative reporting challenges is that provided in paragraph 8.2.12 of IFRS 9, which exempts entities from the need to restate comparative amounts (a similar option was provided under IAS 32 and IAS 39 on adoption of IFRS in

Europe in 2005). We believe the Board should extend this IFRS 9 exemption beyond its current limited timeframe, and should also consider allowing similar exemptions for the other projects in the scope of the RfV.

Question 5:
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).
(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?
(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.
(d) Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

Answer:
Our members prefer a single date approach to adoption as this improves comparability of financial reporting, allows for a more focused implementation effort, and enhances opportunities to take advantage of synergies which might exist in developing systems and delivering education programs for the new requirements. Many of our members already have significant experience with the single date approach to IFRS adoption in Europe and thus already have tried and tested organisational knowledge to deal with this method of change. This knowledge also exists with the accounting firms who are therefore well prepared to assist with such an approach.

By contrast, a sequential approach will result in a constantly changing environment over a prolonged period, leading to confusion amongst preparers and users of accounts.

Taking into account the size and scope of the changes discussed above, and the complications arising from the EU endorsement process for EU based entities, we believe that, under a single date approach, the mandatory effective date should be no earlier than for accounting periods beginning on or after 1 January 2016, assuming that the projects are completed by June 2011. This would allow EU firms a maximum of three and a half years, subject to EU endorsement[2].

[2] We understand that a number of other respondents have suggested an effective date of 1 January 2015. While we believe this to be the absolute earliest date that the standards could be made effective, we consider that an effective date of 1 January 2016, with optional early adoption, would provide a better solution.

Question 6:
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)?

Answer:
We are generally supportive of the IASB providing entities with the flexibility to adopt standards in a way which minimises the impact for the entity, depending on the specific circumstances of the entity.

Whilst optional early adoption does, to an extent, conflict with the comparability benefits of the single date approach noted in our response to Question 5, entities within an industry generally tend to move together and thus we do not believe that early adoption will significantly impair comparability in practice.

As noted in our response to Question 7 below, we also believe that early adoption will be important for multinational organisations which report under both US GAAP and IFRS to enable those entities to adopt both sets of standards at the same time, even if the mandatory adoption dates may be different.

Question 7:
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?

Answer:
Our members are very supportive of convergence between IFRS and US GAAP and, consistent with this, we believe the same effective dates and transition methods should be required for converged standards.

We recognise some challenges with this: US GAAP reporters must provide two comparative periods in the income statement (and 5 years for selected information in 10K filings with the SEC), whereas the majority of IFRS reporters are only required to present one comparative period. This results in the earliest reporting date for US GAAP reporters being at least a year earlier than that for IFRS. Conversely, for EU institutions, any delays in the EU endorsement process can create a period of uncertainty over the final form of the required standards, with consequent delays before resources are fully committed to the implementation effort.

Accordingly we recognise that it may be difficult to have the implementation provisions perfectly aligned. However, as many of our members (along with many other multinational groups) have reporting obligations under both US GAAP and IFRS, it is important that, regardless of the mandatory adoption dates, flexibility is provided by way of early adoption so that organisations with multiple reporting requirements can implement both US GAAP and IFRS at the same date.

Question 8:
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?

Answer:
As noted above, we are supportive of allowing entities flexibility in adopting the standards early and this is even more applicable to first-time adopters. If the Board does not allow early adoption for existing IFRS entities, we believe it should nevertheless allow early adoption for first-time adopters. Failure to provide such flexibility could result in some jurisdictions delaying conversion to IFRS.

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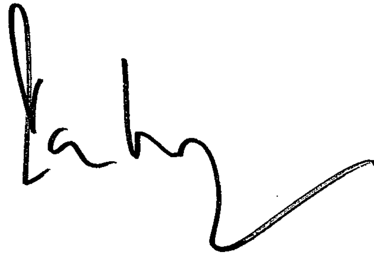
I hope the above comments are helpful. We would of course be pleased to discuss any points which you may find unclear, or where you believe AFME members might be able to assist in other ways.

Yours faithfully



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