ASC
ACCOUNTING STANDARDS COUNCIL

31 January 2011

International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

(By online submission)

Dear Sirs

RESPONSE TO REQUEST FOR VIEWS ON EFFECTIVE DATES AND TRANSITION METHODS

The Accounting Standards Council appreciates the opportunity to comment on the Request for Views on Effective Dates and Transition Methods (the RV) issued by the International Accounting Standards Board (IASB) in October 2010.

General

We fully support the goal of attaining a single set of high quality global standards. However, we are deeply concerned that the current timeline proposed by the IASB to issue the IFRSs for all the projects outlined in this RV is highly accelerated given the complexity and potential impact of these projects to the financial reporting community. We are therefore of the view that the issuance dates of the proposed new IFRSs are of a greater strategic importance rather than the effective dates and transition methods which are the subject of this RV.

Whilst we understood the IASB's rationale to accelerate the issuance of the proposed new IFRSs by June 2011, we wish to emphasise that the urgency to issue these IFRSs should not be at the expense of achieving high quality global standards. This is especially so given that we and the other Singapore and global stakeholders continue to have significant concerns about some of the principles articulated in these projects. We believe that the goal of a set of high quality global standards must be to reflect the economic substance of the transactions in the marketplace that the standard is being applied to.

In order to achieve this goal, we are of the view that the process of standard setting cannot be rushed and that a thoughtful rigorous process which incorporates adequate field-testing is imperative. This is particularly so considering that some of the proposed new IFRSs are not mere fine-tuning efforts but fundamental paradigm shifts to the existing recognition and measurement principles (such as the Revenue from Contracts with Customers, Leases and Insurance Contracts projects).

In addition, the comment period for a number of these projects barely closed in the 4th quarter of 2010. The overall goal of improving financial reporting could only be achieved if stakeholders' concerns with and views on the principles articulated in the various projects are appropriately addressed by the IASB. Hence, we are concerned whether the IASB has enough time between now and June 2011 to complete this process rigorously. We therefore urge the IASB to re-consider the current timeline set for completion of these projects. In this regard, we recommend that the IASB consider dedicating the highest priority to the Financial Instruments project, considering that IFRS 9 Phase 1 is already completed and that the project is undertaken primarily to address significant deficiencies in the accounting and reporting of financial instruments that came to light during the last global financial crisis.

Specifically on the questions raised in this RV, we support a single date approach for the following group of proposed new IFRSs:

- Fair Value Measurement
- IFRS 9 Phases 1, 2 and 3
- Insurance Contracts
- Leases
- Revenue from Contracts with Customers

We do not believe that the adoption of these proposed new IFRSs in a piecemeal or sequential manner would be optimal for the marketplace. In the context where a large number of concurrent proposed fundamental changes are taken to replace existing accounting principles well understood by the marketplace, a single date approach is a logical one. We believe that this would better preserve users' understanding of the financial statements rather than having to grapple with sequential piecemeal fundamental changes year on year. Having a single date approach would also eliminate the consideration of cross cutting issues that would arise when the proposed new IFRSs are adopted in a piecemeal manner.

Further, to minimise the reporting burden on preparers, the IASB should ensure that the effective date of the above proposed new IFRSs is at least 3 years from the date of issuance of the last proposed new IFRS in the aforesaid group. In addition, we believe it is important that the IASB remains mindful about introducing fundamental changes to other IFRSs during the implementation phase of this group of proposed new IFRSs in order not to introduce further uncertainty to the marketplace or to cause further undue burden on the preparers.

Our comments on the specific questions to the RV are as follows:

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).

We are the national accounting standard setting body in Singapore. The views expressed in this comment letter incorporate feedback from the financial reporting community in Singapore.

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?

(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 accounting and operational implications of adopting many of the new IFRSs could be significant. Besides the obvious impact to the accounting function of entities, departments such as sales and marketing, legal and information technology could be impacted. Though each cost component could not be specifically quantified at this point, it is safe to say that the costs to be incurred by entities are unlikely to be insignificant.

Tasks that would involve significant time and resources would include changes to information technology systems, revisions and evaluations of existing and new contracts and agreements (for revenue recognition and leases), financial analyses on ratios and debt covenants, and educating and training staff regarding the new accounting requirements. We believe that the costs would be particularly significant for financial institutions and insurers in applying the revised Financial Instruments and Insurance Contracts standards.

In addition, it is important not to discount the impact to the users of financial information considering the fundamental changes to the IFRSs and there is a need to educate the users of financial information on these changes.

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?

We foresee broader impact on prudential, tax and other regulatory requirements in light of the proposed fundamental changes to the current IFRSs. We believe our recommendation for adequate lead time to be provided for entities to implement the proposed new IFRSs would also give the various regulatory authorities time to determine the impact of the proposed new IFRSs to their respective regulatory requirements and to make necessary changes to these requirements, if any.

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.

Subject to the provision that sufficient lead time be given for the implementation of the proposed new IFRSs, we agree with the proposed transition method for each project when considered in the context of a broad implementation plan covering all the new requirements except for the following:

Exposure Draft ED/2010/8 Insurance Contracts

As highlighted in our comment letter to the above ED, we disagreed with the proposed transition requirements not to include a residual margin for existing "in-force" insurance contracts at the date of transition as this would not be consistent with new contracts recognised subsequent to the date transition. We believe that insurers should be permitted to estimate the residual margin at transition date and release this margin over the remaining insurance coverage period.

Exposure Draft ED/2009/12 Financial Instruments: Amortised Cost and Impairment

As highlighted in our comment letter to the above ED, we disagreed that comparative information should be restated to reflect the proposed requirements. To construct comparative information, preparers would need to forecast cash flows with the use of hindsight and we are not convinced that the benefits of presenting the adjusted comparable information would outweigh the cost.

In addition, we believe that the IASB should consider minimising the transitional requirements to restate comparative information for entities that choose to early adopt the proposed new IFRSs. We are of the view that there is merit for the IASB to provide relief to early adopters by simplifying the transitional requirements such that it does not create undue obstacles for entities to apply the proposed new IFRSs before their mandatory effective dates if it makes economic sense for them to do so. This would be consistent with the IASB's rationale for providing transitional relief (i.e. exemption from restating comparatives) to entities that adopt IFRS 9 Phase 1 for reporting periods before 1 January 2012 (i.e. to strike a balance between the conceptually preferred method of full retrospective application and the practicability of adopting IFRS 9 Phase 1 within a short time frame).

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).

(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.

As highlighted under our general view on page 2, we support the single date approach for the following group of proposed new IFRSs with a mandatory effective date of at least 3 years from the date of issuance of the last proposed new IFRS in the group:

- Fair Value Measurement
- IFRS 9 Phases 1, 2 and 3
- Insurance Contracts
- Leases
- Revenue from Contracts with Customers

In particular, we believe that the IASB should make effective all three phases of the IFRS 9 project at a single point in time. Moreover, as IFRS 9 would impact insurers, it is important to align the effective date of the proposed new IFRS for Insurance Contracts with IFRS 9, in order not to cause accounting mismatches for insurers and that insurers would not have to face two rounds of major changes in a short period of time. Hence, it may be optimal for the IASB to delay the implementation date of 1 January 2013 for all three phases of IFRS 9 to align with the effective date of the Insurance Contracts.

In addition, we reiterate that during the 3 year implementation period, it is imperative that the IASB remains mindful about introducing fundamental changes to other IFRSs (unless absolutely necessary) to avoid adding further burden to preparers or causing further uncertainty to the marketplace.

Furthermore, we suggest that the IASB should assist jurisdictions in the implementation of the proposed new IFRSs during the 3 year implementation period, such as conducting Train the Trainers workshops and public outreach on implementation in the various jurisdictions.

For the following proposed new IFRSs that are mentioned in the RV, we think that they have a more contained and discrete effect on financial reporting:

- Consolidation
- Joint arrangements
- Post-employment benefits – Defined benefit plans
- Presentation of items in other comprehensive income

As such, the IASB could consider their effective dates, transition methods and early adoption independently from the group of proposed new IFRSs mentioned in page 2 of our comment letter.

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)?

For the proposed new IFRSs where we support a single date approach, we believe that entities should be allowed the option to early adopt IFRS 9 Phases 1 to 3 and the proposed new IFRSs on Fair Value Measurement and Insurance Contracts. IFRS 9 Phases 1 to 3 and the proposed new IFRS on Fair Value Measurement are developed in direct response to and incorporate considerations arising from the last global financial crisis. Entities should thus be permitted to use these proposed new IFRSs earlier if the use results in more relevant and faithful representation of their financials.

For Insurance Contracts, considering that IFRS 4 is only an interim standard which permits diversity in practice, including many practices that do not provide users with financial information that is relevant and faithfully represented, we believe that entities should be permitted to early adopt the proposed new IFRS if this results in financial statements that better reflect the underlying economics of insurance contracts.

We are not convinced that the same circumstances that warrant the early adoption of IFRS 9 Phases 1 to 3 and the proposed new IFRSs on Fair Value Measurement and Insurance Contracts would be applicable to the proposed new IFRSs on Revenue from Contracts with Customers and Leases.

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 the IASB’s foremost priority is to develop a single set of high quality global accounting standards with appropriate effective dates and transition methods. It would however be optimal if the IASB and FASB could require the same effective dates and transition methods for their comparable standards in order to get markets on equal footings.

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?

We support permitting different adoption dates and early adoption requirements for first-time adopters of IFRSs. This would be a logical and practical outcome so as to avoid first-time adopters from having to make two significant changes in quick succession as elaborated in the RV.

We hope that our comments will contribute to the IASB's deliberation on the RV. Should you require any further clarification, please contact the project manager Ivan Koo at ivan_koo@mof.gov.sg.

Yours faithfully

Siew Luie Soh
Secretary, Accounting Standards Council