

David Schraa
Director, Regulatory Affairs



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Sir David Tweedie,
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**Re: IASB Request for Views on Effective Dates and Transition Methods
FASB Discussion Paper, Effective Dates and Transition Methods (Ref: 1890-100)**

Dear Sir David and Ms. Seidman:

The Institute of International Finance (IIF) Senior Accounting Group appreciates the opportunity to comment on the boards' requests for feedback on effective dates and transition methods of new standards being developed jointly by the IASB and the FASB. Given that the IIF is a global association of financial institutions, this response reflects the views of banks operating in diverse geographic regions. This response also specifically addresses concerns most pertinent to financial institutions.

As expressed in our Board letter to Sir David and Ms. Seidman dated December 15, 2010. The IIF has supported the convergence of accounting standards for many years. It remains fundamental in the view of the Institute that a single set of high-quality international accounting standards is critical in today's global markets. Consistent international standards on financial reporting would serve the needs of investors, issuers, regulators and the capital markets as a whole.

At present, given the lack of clarity on convergence, particularly in the area of accounting for financial instruments and uncertainty as to what final requirements might be, it has been a challenge for financial institutions to gauge what effective dates and transition methods might be most appropriate. Hence, this response reflects our current thinking and might be subject to change as the convergence process advances and standards are finalised by the boards. We may submit further responses to supplement views expressed in this letter in due course.

The Appendix to this letter sets out our responses to questions posed in the documents. The IIF Senior Accounting Group appreciates the opportunity to provide feedback. Should you have any questions about this letter or the views expressed, please contact the undersigned (dschraa@iif.com; +1 02 857 3312) or Carol Wong (cwong@iif.com +1 202 857 3633).

Very truly yours,

A handwritten signature in black ink, appearing to read "David Schraa", followed by a long horizontal flourish line extending to the right.

Appendix

Question 1:

Please describe the entity (or the individual responding)

The Institute of International Finance, Inc. (IIF) is the world's only global association of financial institutions. Members include most of the world's largest commercial banks and investment banks, as well as a growing number of insurance companies and investment management firms. Among the Institute's Associate members are multinational corporations, trading companies, export credit agencies, and multilateral agencies. Approximately half of the Institute's members are European-based financial institutions, and representation from the leading financial institutions in emerging market countries is also increasing. Today the Institute has more than 400 members headquartered in more than 70 countries.

The IIF Senior Accounting Group consists of senior executives within the accounting policy, treasury, and finance functions of financial institutions within the IIF's membership. The Senior Accounting Group addresses accounting issues of significance from a cross-border perspective, including such questions as provisioning, hedge accounting, fair-value measurement and IFRS-US GAAP convergence.

Questions 2:

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?

As noted in our cover letter, it is difficult to assess the relative costs and time required to implement new standards before final requirements are available and a full analysis of how individual standards might interact upon implementation and with the extensive new regulatory requirements that also make demands on IT development resources can be performed.

Costs that members expect to incur include personnel, education and training costs and costs to change existing IT systems and reporting procedures. Another cost that should not be overlooked is the time and effort that would be required to re-educate analysts and investors, given that new reporting requirements may result in financial statements that are significantly different from today's financial statements.

In our view some primary drivers of costs include:

(i) *Complexity of the standard* – Complex standards that are difficult to implement operationally will be more costly to implement and require more lead time.

(ii) *Required systems changes* – Standards that require more significant systems changes or development of new reporting systems will be more costly to implement and require additional lead time; they will also require allocation of scarce resources at a time when many new regulatory and supervisory requirements must be met.

(iii) *Requirement of comparatives* – The more years of comparatives required, the more costly it will be to implement a new standard given additional costs are incurred for each additional year of comparatives required.

(iv) *Overall implementation plan* – Costs and the timing of when implementation costs will be incurred might be driven by whether a single “big bang” date or a sequential approach is adopted.

Focusing on standards most relevant to financial institutions, we believe that financial instruments and leasing will likely be most costly to implement and will require longer lead time. This is primarily because these standards are more complex and would require more significant systems changes, but such changes will also require a good deal of education of both internal bank officers and the analysts and investors.

Question 3:

Do you foresee other effects on the broader financial reporting system arising from these new IFRS? 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?

Basel III

The interactions between Basel III and changes in accounting standards must be considered. The Senior Accounting Group and the IIF Working Group on Regulatory Capital are considering such interactions and possible conflicts as part of their work. Some areas of interaction that have been identified include impairment, netting, own-credit and leasing.

We are generally supportive of the alignment of accounting and regulatory regimes to the extent possible to avoid unnecessary duplication of requirements, data and systems. It should also be noted that in addition to changes in financial reporting requirements, financial institutions will also be subject to a suite of substantial regulatory changes, notably Basel III, but also many other new requirements including supervisory demands, MiFID, Dodd-Frank adjustments, compensation changes, trading changes, and many others, in the next five years. The implementation of these other regulatory changes will also be resource-intensive and costly. Moreover, such changes make demands on limited

numbers of skilled individual resources within banks. The Board of Directors of the IIF has raised with the Basel Committee the operational and systemic risk that may arise if banks are required to complete too many technically demanding developments within a compressed period of time.

SEC filing requirements

Several Members are SEC registered, either as US firms or as Foreign Private Issuers and need to comply with SEC requirements. The SEC requires additional comparative information to that required by IFRS, viz.. two years' balance sheets, three years' profit and loss statements, and five years other data. Without relief from full retrospective application, including the adjusting of the additional comparative information, the cost and time to implement would be significantly increased as historical information would need to be converted.

EC endorsement of IFRSs

Some Members are concerned that dual reporting might be required if the EC does not adopt (or does not adopt before the effective date) a standard as issued by the IASB. Some Members would need to report under IFRS as issued by the IASB (for the SEC) and IFRS as endorsed by the EU (for European listing). Dual reporting would involve substantial cost as banks would need to maintain two sets of records and disclosures, and would of course muddle messages to the market. These Members believe that sufficient time needs to be provided between the issuance date of an IFRS and its effective date to allow for review by the EU and adoption, as well as time for issuers to implement the changes.

Question 4:

Do you agree with the transition method 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.

Focusing on accounting for financial instruments, we are generally supportive of an approach that is retrospective application with no comparatives required, i.e. changes would apply to all existing transactions as at the effective date, with a cumulative catch-up adjustment and no restatement of prior periods. This would be similar to the approach adopted on transition to IAS 39 in 2005.

Exemption from comparatives would resolve numerous issues. Moreover, given the inevitable exceptions to full retrospective application, restated information is unlikely to be truly comparable thereby reducing its overall usefulness. We believe it is unhelpful to provide users with comparatives that are not truly comparable. In addition, as noted

above, the requirement of comparatives would most certainly increase the cost of adapting to new reporting requirements disproportionately to any benefit.

With respect to transition requirements of IFRS 9, we urge the IASB to extend any transition relief provided, notably relief from restatement of prior periods. As noted above, we would be most supportive of an overall transition approach that would not require comparatives.¹

Question 5:

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 minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing 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.

The Senior Accounting Group Members' views on whether a single-date "big bang" approach or a sequential/phased approach should be adopted vary. Members can see pros and cons to both approaches.

"Big bang" approach

Members noted several advantages of a "big bang" approach including economies of scale for training and IT systems change purposes. Some Members believe that users and preparers are best served by a stable platform of accounting standards, which would be facilitated in their view by adopting a single adoption date. A phased approach could result in numerous restatements, which reduce the usefulness and understandability of financial information. We acknowledge that several of the standards are complex and require significant systems changes, which will require long lead times for

¹ Some members note a specific issue with transition requirements of IFRS 9 if comparatives are required is that under the comparative period, the opening balance sheet is not static since if there are sales during the comparative period, then the opening balance sheet needs to show these assets classified and measured under IAS 39. This is exceptionally onerous since the opening balance sheet and quarterly comparatives cannot be finalised until after the effective date. If comparatives are required some members would prefer to have a static opening balance sheet perhaps by making the date of assessment the beginning of the comparative period.

implementation. Members that support a big bang approach would support a lead time of *at least* three years to prepare for implementation (assuming a retrospective application with no comparatives for all new standards). However, some Members consider that a longer lead time is likely to prove necessary.

Sequential/phased approach

As noted above, some projects such as financial instruments and leasing will inevitably require a longer lead time for implementation, which will consequently require pushing effective dates further out under a “big bang” approach. However, if new standards improve financial reporting, some Members believe there is benefit in applying related groups of standards at the earliest time practicable. Hence, some Members would support a limited number of start dates for groups of standards that would become effective at the same time.

If a sequential approach were applied, some Members propose grouping standards into two broad groups. One would be standards that relate to performance measures, i.e. IFRS 9, insurance and revenue recognition, fair value measurement, and leases. These Members think such grouping would ensure that related standards such as IFRS 9 and insurance could be applied together and that issues arising from interactions and interdependencies of performance related standards are not overlooked.

Another approach suggested by certain Members would be to group and sequence effective dates of the standards as follows:

- Group 1: Consolidation and derecognition, joint ventures, investment companies
- Group 2: IFRS 9 (all three phases), fair value measurement, offsetting, IFRS 4
- Group 3: Revenue recognition, leases
- Group 4: Financial statement presentation (after a stable period of at least 2 years)

These Members believe that other standards such as pensions, presentation of items in other comprehensive income, and deferred tax affect financial institutions less significantly and hence there are no strong views on their effective dates.

These Members believe that Group 1, including the new consolidation standard, is logically the first group since it determines the reporting entity. It is beneficial to determine the consolidated group before applying other standards. Moreover, Group 1 standards would require similar expertise and source information. Members estimate determination of the consolidation group to require at least 12 months from date of EU endorsement. However, disclosures are likely to substantially longer to implement and might require several years of lead time. Similarly, applying the standards in Group 2 together would ease implementation as standards affecting financial instruments should be addressed together.

Other alternatives

Given the varied views on “big bang” versus sequential or phased approach, some Members have suggested another alternative - a big bang approach combined with the

option to adopt early all standards (question 6 sets out Members' views on the early adoption option). These Members note that the lead time required to adopt new standards will vary across industries and by institution. Under a sequential or phased approach, it may be difficult to ensure prioritization that might be appropriate for all constituents. For example, some members expect revenue recognition would require a shorter lead time for financial institutions but retail organizations may need substantial time to review contracts and adjust systems. These Members support a single adoption date but, like Members who support a sequential or phased approach, see benefit in applying new standards at the earliest time practicable.

As highlighted in our cover letter, we are fully supportive of the IASB's and the FASB's convergence effort. Although some Members have proposed preferred effective dates, a mandatory effective date should take into account possible changes to new standards as the convergence process progresses and also the time necessary for a proper implementation of potentially complex requirements (e.g. impairment, IFRS 4, leases).

In addition, some Members believe that the boards should consider deferring presentation-related projects, e.g. financial statement presentation, until there is a stable platform. Some members are of the view that presentation issues are likely more easily addressed when the overall impact of new standards can be assessed.

Question 6:

Should the boards give entities the option of adoption some or all new standards before their mandatory effective date? Why or why not? Which ones? What restrictions, if any should be on early adoption (for example, are there related requirements that should be adopted at the same time?)

For comparability concerns, some Members are strongly in favour of a single-date approach for all standards, without any option for early adoption.

However, some other members believe that existing IFRS reporting entities should not be denied the option to apply improved and converged standards as soon as practicable.

These members are aware that the option to adopt standards early could result in a period prior to the mandatory effective date where financial statements across entities might not be fully comparable. However these members believe reporting needs will inevitably be market- and investor-driven. Therefore, within the banking industry, banks may be likely to adopt early the same standards, given demands of bank analysts and investors and competitive pressures within the industry. In our view, the option to early adopt will more likely result in a race to the top than the bottom given the new standards are an improvement to financial reporting.

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?

As stated in our cover letter, the IIF's fundamental view is that convergence in accounting standards is crucial to today's global capital markets and should be a top priority for the boards. If standards are converged, requiring the same effective dates and transition methods would be appropriate.

However, we note that for purposes of SEC filing, US banks would need at least a five-year period to prepare for adoption of new converged standards. Unless there is some relief from current information requirements for SEC filings, it might be a challenge for US GAAP filers to mandatorily apply new standards within a five-year time frame. We believe this will have implications for feasible effective dates. Consistent implementation dates should be used if at all possible.

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?

Early adoption might be helpful for first-time adopters but this should not accelerate the effective dates for preparers already applying IFRSs.