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THE SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS
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31 January 2011

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

Email: CommentLetters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON EXPOSURE DRAFT ON *REQUEST FOR VIEWS ON EFFECTIVE DATES AND TRANSITION METHODS*

In response to your request for comments on the IASB's exposure draft on *Request for Views on Effective Dates and Transition Methods,* attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA). Please note that SAICA is not only a professional body, but also secretariat for the Accounting Practices Board (APB), the official standard-setting body in South Africa. The SAICA comment letter results from deliberations of the Accounting Practices Committee (APC), which is the technical advisory body to the APB.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Accounting

cc: Moses Kgosana (Chairman of the Accounting Practices Board)
Prof Alex Watson (Chairman of the Accounting Practices Committee)

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SAICA SUBMISSION ON EXPOSURE DRAFT ON *REQUEST FOR VIEWS ON EFFECTIVE DATES AND TRANSITION METHODS*

GENERAL COMMENTS

We thank the IASB for identifying the need to consult with stakeholders in developing a detailed implementation plan for all new standards and targeted improvements to existing standards.

The significance of the proposed changes in financial reporting and the changing regulatory environment (new Companies Act) are providing major challenges for South African entities. Some small audit practitioners are finding the cost required to adapt to all the changes so significant that they have no option but to reconsider their existing service offering.

We are of the opinion that a single date implementation plan providing entities with sufficient time to plan how to adapt for the new standards would assist significantly in reducing the cost and effort required for this process.

SPECIFIC COMMENTS

Question 1
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.*

The South African Institute of Chartered Accountants (SAICA) circulated a request to all its members to complete the *Request for Views on Effective Dates and Transition Methods* as published by the IASB on 19 October 2010. The views of the SAICA members were obtained either from written communications received or verbal discussions. These views were consolidated and deliberated on by the members of the Accounting Practices Committee (APC). The results of these deliberations were then summarised in this comment letter.

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SAICA members from which contributions were obtained include the following:

- Preparers from the banking, insurance, retail and service industries;
- Academics;
- Auditors from small to large practices; and
- Investors in debt or capital instruments in the retail or corporate sectors.

All participants apply International Financial Reporting Standards (IFRS) as their reporting framework.

(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 following table sets out a summary of the expected effect that each of the proposed IFRS standards will have on entities (please note that we have also included hereunder our views on other standards that were not the subject of the IASB's Request for Views, being that of Consolidation and Joint Arrangements):

Project	**Degree**	**Reasoning**
Consolidation	Medium	Groups would have to reconsider the relationships of all companies within an existing group, or companies that should be within the group. Entities may be identified that should be consolidated under the new standard that are currently not using IFRS as their reporting framework, for example users of IFRS for SMEs. In this case the financial statements of the subsidiary may need to be converted to IFRS for consolidation purposes. This is especially a concern raised by the investment banking (structured lending) and fund management industries.
Fair Value Measurement	Medium	All entities indicated that they would be required to assess all fair value measurement models and, if necessary, revise the models to ensure compliance with the requirements of the new standard.

IFRS 9 - *Financial Instruments* (IFRS 9)	High	IFRS 9 is expected to have the greatest impact of all the proposed standards. All industries from retail to banking expressed concern regarding the magnitude of change proposed for financial instruments. All existing financial instrument classifications will have to be reassessed and classified in accordance with the new standard. This may require new measurement models to be applied retrospectively for certain financial instruments. The proposed impairment methodology will significantly change existing practice and therefore require adjustments to be made to existing financial reporting systems. Extensive communication, education and training will be required for preparers, those charged with governance and the investor community to understand the impact of the new standard on the financial position and performance of the entity.
Insurance contracts	High	The new standard proposed for insurance contracts will have a significant impact on the current accounting applied by the insurance industry. The proposed changes may require a significant adjustment to financial reporting systems, operational systems and valuation models. The changes to systems to support the accounting requirements should also not be underestimated. Further, extensive communication, education and training on the changes will be required for all stakeholders.

Joint arrangements	Medium	This is expected to have an impact on certain construction entities that set up jointly controlled entities for construction projects. No major impact is envisaged for other entities.
Leases	High	Operating leases are currently seen as a relatively simple area of accounting that is understood by preparers, regulators and users of financial statements. The proposed changes to the leasing standard would also require lessors to determine whether the derecognition or performance obligation approach should be applied, which differs from existing practice. Further, contingent rentals and lease extension periods would need to be taken into account in determining the manner in which the lease is accounted for. Therefore, adopting the new standard would require detailed analyses of all leases. Operating and financial reporting systems may be required to be adjusted to facilitate the new standard. The new standard will significantly change the balances presented in the statement of financial position regarding leases, which may have an impact on capital management required by regulators, for instance those in the banking industry. This matter is discussed in more detail in the answer to Question 3. Lastly, extensive communication, education and training on the changes will be required for all stakeholders.

Post-employment benefits – Defined Benefit plans	Low	The majority of the respondents indicated that the information could be obtained with relative ease and low cost.
Presentation of items of Other Comprehensive Income	Low	No major impact envisaged.
Revenue from contracts with customers	High	Software development and construction industries expressed the most concern regarding this proposed change. The new standard is expected to have a significant impact on the timing and the amount of the revenue recognised by these entities. The retail industry also expressed some concern regarding this new proposal for revenue where the entity is required to make a best estimate of the weighted probability of the consideration expected to be received, taking into consideration the credit risk of the customer. Implementing this change would require an entity to perform detailed analyses of historical information within the entity and for the industry. Significant changes would also be required to operational and financial reporting systems. Staff at all levels would require extensive training in order to understand and apply the new proposal.

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?*

The participants believe that the proposals for financial instruments, revenue from contracts with customers, leases and insurance contracts will require the most effort, time and cost to implement.

(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 table below provides a summary of the costs that are expected to be incurred in planning for and adapting to the new standards and the proposals that are likely to have the most significant impact on those costs:

Cost	**Significance of the cost**	**Proposals that drive the cost**
Cost required for the development of new financial reporting systems or adjustments to be made to existing financial reporting systems.	High	The proposals made for financial instruments, insurance contracts, revenue from contracts with customers and leases are expected to be the biggest driver of this cost. A robust process of planning, development, testing, training and change management is required. This will probably be the most significant cost to be incurred by entities.
Additional costs will be incurred to hire new staff as well as external consultants to work on the group's adoption time table.	High	The proposals made for financial instruments, insurance contracts, revenue from contracts with customers and leases are expected to be the biggest driver of this cost.
Cost associated with educating accounting staff.	High	The proposals made for financial instruments, revenue from contracts with customers and leases are expected to be the biggest driver of this cost. The cost does not only include the cost of educating the accounting staff regarding the changes in the standards, but also the cost to educate the staff on how to use the

		new accounting systems required to account for these proposals.
Cost to be incurred for updating the financial statement reporting templates and in the case of a group, the group reporting packs.	Medium	It appears that the proposals relating to financial instruments and leases may have the most significant impact on presentation and disclosures in the financial statements. This cost will also include consultation fees paid to IFRS specialists (e.g. auditors) that will be required to ensure compliance with all the requirements of the new standards. Financial reporting systems that already exist and that are updated regularly could assist with this process and could reduce the cost to be incurred.
Costs associated with educating users	Medium	All proposals will drive this cost. Users (including analysts) will need to be educated as to the impact that the new standards have had on the financial reporting of the entity.
Increased audit fees	Medium	It is likely that increased audit fees will be incurred as a result of the changes to financial reporting models that would need to be tested for audit purposes.
Cost associated with educating the directors and senior management of the entity.	Low	All proposals will drive this cost. It is extremely important for the senior management of the entity to be educated regarding the impact of the proposed changes on financial reporting, the expected future results and the impact on business.

Question 3

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 and proposed IFRSs will, in most instances, require a change to the classification and measurement of items in the financial statements. These changes may have an impact on an entity's debt covenants, which would require preparers of financial statements to engage with debt providers to amend debt agreements in accordance with the requirements of the new standards.

The banking industry specifically highlighted that the difference between financial and regulatory reporting may have significant effects on capital and liquidity cost management and the cost associated with holding capital. In addition, more detailed reconciliations and explanations may be required by regulators to understand these differences.

For example, when determining the regulatory capital for a bank, the asset acquired under a finance lease is weighted in accordance with its risk and nature, which is then included in the calculation of regulatory capital. The new standard proposes that the right of use asset obtained from all lease arrangements be classified as an intangible asset. From a regulatory point of view, intangible assets are disallowed for the purposes of calculating regulatory capital. It is therefore possible that an asset under a finance lease that was previously included as an asset for calculating capital will be disallowed as an intangible asset under the new proposals. Further, assets that were previously not recognised by lessees (in terms of operating leases) would now be recognised and also be fully impaired from a capital perspective.

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.

The participants in general agreed with the transition methods as proposed, when considered in the context of a broad implementation plan.

Please refer to the answers to the following questions that can be found in the attached comment letters for the concerns that were raised regarding the transition method proposed per individual project:

- Question 17 – Long-term Insurance Project Group Submission on Exposure Draft on Insurance Contracts;
- Question 17 – Short-Term Insurance Project Group Submission on Exposure Draft on Insurance Contracts; and
- Question 13 – SAICA submission on the Exposure Draft on Financial Instruments: Classification and Measurement

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).*

The majority of the participants are of the opinion that a single date approach would be the most beneficial and practical approach to follow.

A single date approach that provides a sufficient implementation period would allow a preparer to:

- obtain sufficient guidance on the implementation of the new standards;
- obtain and/or provide sufficient training for staff;
- adjust information systems timeously and appropriately; and
- ensure that all interrelated areas affected by different standards are carefully considered and treated consistently.

Whilst the cost and effort required in the year of adoption would be significant, it would however be less disruptive for the entity as well as for the users of the financial statements. The year of adoption would then form a stable base for all future from which users can make meaningful comparisons, therefore resulting in more comparable and understandable financial reporting.

A sequential approach would result in financial reporting and financial reporting systems that change consistently over a period, which may lead to confusion and frustration of preparers, users and regulators. The costs associated with continuously changing systems over a period of time may also be more expensive than the application of a single set of changes.

(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?*

Under a single date approach, the participants indicated that the mandatory effective date of the standards should not be before 1 January 2014.

As IAS 1 – *Presentation of Financial Statements,* requires comparative information for two financial periods where there was a change in accounting policy, preparers would be afforded the opportunity to gather information for the 2012 and 2013 periods that would be required on the date of adoption of the new and proposed standards.

(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.*

If the IASB decides to follow a sequential approach, consideration should be given to standards that are dependent on each other. For example, the standards on fair value measurement, financial instruments, insurance contracts and leases should be adopted simultaneously as they may have a significant impact on the adoption of each other.

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

No other approach was identified.

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)?

We are of the opinion that all entities should be provided the option of adopting the standards before the mandatory effective date.

It is, however, important that where a standard is issued in phases, the version of the standard on the date of adoption should be applied and clearly disclosed in the notes of the financial statements. This application is similar to the application guidance provided in IFRS 9 and will ensure that users cannot selectively apply sections of a standard for their own benefit.

The minority of the respondents indicated that there should be no option to early adopt the accounting standards as this will reduce consistency and comparability of financial reporting. The only exception would be for first-time IFRS adopters that should be allowed to adopt all issued accounting standards on the date of adoption (refer to the detailed answer provided for Question 8).

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 the IASB and the FASB are currently in the process of converging accounting frameworks, we believe it would aid this process if consistent effective dates and transition methods were required for comparable standards.

Additionally, we urge the IASB to reconsider the effective dates and transition methods if the FASB decides to adopt IFRS as a reporting framework to ensure consistency for all entities adopting these standards.

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?

First-time adopters of IFRS should be permitted to early adopt all published standards not effective at its date of adoption. This is because it is not considered to be cost effective for an entity to adopt a version of IFRS that is about to change significantly within the near future.

We do, however, believe that the same adoption requirements should be applicable for first-time adopters as for existing users. This will ensure comparability from year to year and between different entities regardless if it is a first-time adopter or not. This is consistent with our response to Question 6 on allowing early adoption of standards.

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