bankenverband
BUNDESVERBAND DEUTSCHER BANKEN

Sir David Tweedie
Chairman
International Accounting
Standards Board
30 Cannon Street
LONDON EC4M 6XH
GROSSBRITANNIEN

31 January 2011

Request for Views on Effective Dates and Transition Methods

Dear Sir David,

We are grateful for the opportunity to reply to the *Request for Views on Effective Dates and Transition Methods*.

May we say that implementation of the large number of major standard-setting projects that are to be completed in 2011 is a mammoth task for the entities affected which can only be mastered through a substantial investment of time and financial resources. Against this backdrop, we believe that the intention behind the Request for Views, i.e. creating as practical and consistent rules as possible for transition to the new standards, makes sense. On the other hand, it is difficult to say anything definite at present about the anticipated cost of, and time needed for, the changeover, as many of the standards concerned have not yet been adopted and further delays cannot be ruled out. The following remarks are therefore subject to the reservation that the projects in question are finalised by mid-2011.

Q1. Please describe the entity (or the individual) responding to this Request for Views.

The Association of German Banks represents the interests of the private banks in Germany. It represents more than 220 private banks and 11 member associations. Member banks include both big and small banks, banks operating worldwide, banks with a regional focus, universal banks and banks specialising in individual lines of business. All large member banks draw up and publish IFRS consolidated accounts. Our comments therefore mirror the perspective of a reporting bank.

Bundesverband deutscher Banken e.V. · Postfach 040307 · 10062 Berlin · Burgstr. 28 · 10178 Berlin · Tel. (030) 1663-0 · Fax (030) 1663-1399 · www.bankenverband.de

Measured in terms of business volume, all German private commercial banks hold a share of around 42 % of the banking market as a whole.

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?

(a) Transition to IFRS 9 will pose by far the biggest challenge to banks in terms of time and manpower. The main reason for this is the complexity of the rules, which is, in turn, due to the complexity of the financial instruments. What makes things even more difficult is that the new rules on impairment, hedge accounting and offsetting are still under discussion, so that no accurate final estimate of the time and financial effort required is possible. We are currently anticipating a changeover period of 24 – 36 months.

In addition, introduction of the new leasing accounting will likewise require a considerable effort. Should financial guarantees fall under the IFRS 4 rules in future, this would impose a significant additional burden on entities.

Because of the diverse interdependencies between the different standard-setting projects, a single effective date should be chosen for all the projects listed in the table. That goes particularly for the IFRS 9 projects *Leases*, *Insurance contracts*, *Fair value measurement* and *Revenue from contracts with customers*. These standards are so closely interlinked that different effective dates would cause serious problems.

(b) The main cost driver will be the need to upgrade existing IT systems and introduce new ones. The wide-ranging and complex changes require a complete realignment of accounting at banks in some areas. In addition to adapting IT systems, training the employees concerned is a time-intensive and cost-intensive factor that should not be underestimated. As, in particular, the rules on impairment and hedge accounting have not yet been finalised, the scale of adaption required cannot be estimated accurately.

For implementation of all standards, our banks are, however, anticipating costs similar in size to those incurred for introducing IFRSs for the first time.

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?

In Germany, prudential financial reporting for IFRS users will be converted as of January 2016. Instead of the present option of reporting on the basis of accounts prepared in accordance with German commercial law (HGB accounts) or on the basis of IFRS accounts, IFRS accounts will then be the mandatory reporting basis for all IFRS users.

This means that conversion at commercial and prudential level may coincide, which will lead to additional (manpower) squeezes.

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.

We see a vital need to provide further transitional relief for the transition to the new IFRS platform. Calculating comparative information involves significant additional cost and effort. To reduce the implementation burden for entities, the new requirements should therefore, in our view, be applied prospectively without restatement of comparative figures.

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.

(a) We prefer the single date approach, i.e. all new standards and amendments of standards should uniformly enter into force on 1.1.2015 at the earliest. The reason for this is that most of the standards in question are closely linked to each other. Single date introduction makes it easier to take account of the diverse interdependencies and may lead to cost savings. That goes particularly for the IFRS projects *IFRS 9, Leases, Insurance contracts, Fair value measurement* and *Revenue from contracts with customers*. These standards are so interlinked that different effective dates would cause serious problems.

We also prefer the single date approach when it comes to communication with capital market participants, as this allows the changes to be explained in full to investors and other addressees of financial reporting.

(b) Provided that all standards are finalised by June 2011, their effective date should not be before 1.1.2015. Particularly IFRS 9 and the leasing project call for large-scale IT conversion and employee training, so that a changeover period of 24 – 36 months will be needed (see Q2).

(c) In the event that 1.1.2015 is unacceptable as the uniform effective date for all projects, earlier implementation of the projects *Post-employment benefits, Presentation of items of other comprehensive income, Consolidation* and *Joint arrangements* would be conceivable. Compared with the projects mentioned in (a), the effort required to implement these would be within reasonable limits.

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)?

We take a critical view of early adoption, as this would impair the comparability of accounts between individual entities. On the other hand, a general ban on voluntary early adoption in certain situations and for certain users would certainly not be justified from a cost-benefit angle. That goes, for example, for entities using IFRSs for the first time.

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?

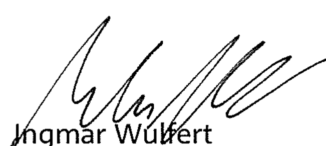
We basically welcome uniform effective dates and transition methods for comparable IFRS and FASB standards. This would further promote the envisaged convergence. However, in our eyes this aim is subordinate to ensuring as practical and resource-sparing transition rules as possible for entities already publishing IFRS accounts.

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?

In particular, the possibility for first-time adopters of IFRSs to voluntarily adopt the new standards early should be examined.

Yours sincerely,

Dirk Jäger


Ingmar Wulfert