AASB Financial Instruments Project Advisory Panel
Summary of 22 February 2017 Teleconference

Attendees

- Marc Smit (NAB)
- David Seton (ANZ)
- Henri Venter (Deloitte)
- Lee-Anne Harris (Victoria DTF)
- Wayne Basford (BDO)
- Vincent Sheehan (EY)
- Patricia Stebbens (KPMG)

Summary of discussions on Agenda Paper 6 (FICE: Examples to consider)

1 Overall the PAP thought the examples correctly illustrated the application of the Gamma Approach. However, panellists would like to see a more thorough explanation of how the Gamma Approach is applied to more complex examples in the future discussion paper.

2 Despite the above, many panellists were concerned about the increased use of OCI especially given the Conceptual Framework is yet to adequately address what OCI is meant to represent.

3 One panel member noted that the presentation options being considered are further diverging from regulatory reporting requirements (such as BASEL), and would like for the IASB to consider where greater harmonisation with BASEL requirements could be achieved. Other panellists, however, did not consider this a major issue as current presentation requirements are already different from BASEL requirements and wouldn't consider convergence with BASEL a priority given the small population of entities it might benefit.

4 Most panellists did not agree with how the FICE proposals would classify the instrument presented in Example 3. When compared to current requirements (movements of the instrument would be reclassified from equity), the additional volatility in P&L would provide questionable benefit to users. One suggestion was not to measure those types of instruments at gross amounts but to take the derivative approach, which should improve the information users obtain about the movements in such instruments.

Summary of discussions on Agenda Paper 7 (symmetric prepayment options and IFRS 9 classification)

5 The panel agreed with the IASB's overall approach to address the classification of instruments with symmetric prepayment options. However, the panel noted that adopting an 'exception' approach raises issues with the initial recognition of an instrument with symmetric prepayment option at any time other than origination.

6 For example, the panel noted that if the instrument were purchased individually, or as part of a portfolio, or acquired as part of a business combination, the proposed exception would not work as the fair value of the symmetric prepayment option on

initial recognition after acquisition would most likely be significant, resulting in the financial asset being measured at fair value rather than amortised cost.

7 One solution the panel considered was to require the instrument to be initially measured at fair value, for example in a business combination but to allow the purchaser/acquirer to adopt the amortised cost approach on subsequent measurement (ie to follow the measurement model that the vendor/acquiree had previously applied). This would align subsequent measurement for instruments with similar characteristics in an entity's balance sheet (regardless of whether they were acquired or originated).

8 The panel urges the IASB to address the above issue as a matter of priority in the current project. If all purchased/acquired financial assets with symmetric prepayment options were to be subsequently measured at fair value (when they otherwise would be at amortised cost) simply because they fail the 'insignificant fair value' test', financial statements would become less useful to users.

9 However, if the IASB makes a conscious decision that the exception for symmetric prepayment options would only be for financial assets with 'insignificant fair value' for symmetric prepayment options on initial recognition (even though this most likely exclude similar instruments that are purchased rather than originated), then the IASB should include in its basis of conclusions to the amendments as to why it made that decision.