



Australian Government

Australian Accounting Standards Board

**AASB Roundtables on AASB ED 189 on
IASB Exposure Draft *Financial Instruments: Amortised Cost and
Impairment***

The purpose of the AASB Roundtables is to provide a forum for constituents and Board members to discuss the proposals included in the IASB's Exposure Draft *Financial Instruments: Amortised Cost and Impairment* (IASB ED). It is also expected that the Roundtables will assist the AASB and its constituents in formulating their submissions to the IASB.

[AASB ED 189](#) includes an AASB Request for Comment and the IASB ED. The AASB is seeking comments by 17 May 2010 to enable it to consider Australian constituents' comments in the process of formulating its own comments on the IASB ED, which are due by 30 June 2010.

The Board will hold the following Roundtables:

Melbourne, Monday, 22 March 2010

Time: 2:00 pm – 5:00 pm

Venue:

The Institute of Chartered Accountants in Australia
Level 3, 600 Bourke Street
Melbourne

Sydney, Thursday, 25 March 2010

Time: 9:30 am – 12:30 pm

Venue:

The Portside Centre
Symantec House
Level 5, Conference Rooms 6 and 7
207 Kent Street
Sydney

Registration

Those wishing to attend a Roundtable(s), as a participant or an observer, are asked to register by filling out the electronic application form by Friday, 12 March 2010.

Key Proposals

The proposals and questions in the IASB ED are set out in the Summary and Invitation to Comment (pages 7 – 13 of the IASB ED). The AASB staff regards the key proposals as follows:

- (1) The objective of an amortised cost measurement is to provide information about the effective return on a financial asset or financial liability by allocating interest revenue or interest expense over the expected life of the financial instrument. Amortised cost is a measurement that combines current cash flow information at each measurement date with a valuation of those cash flows that reflects conditions on initial recognition of the financial instrument, and the types of amounts that are allocated over the expected life of the financial instrument (including for a financial asset the initial estimate of expected credit losses).
- (2) Amortised cost is calculated using the effective interest method, i.e. the present value of the expected cash flows over the remaining life of the financial instrument discounted using the effective interest rate. Accordingly:
 - the estimates of the cash flows are expected values at each measurement date. Hence, estimates of amounts and timing of cash flows are the probability-weighted possible outcomes; and
 - the effective interest method is the allocation mechanism for interest revenue and interest expense. The effective interest rate used for this purpose reflects the nature of the financial instrument's interest.
- (3) The objective of presentation and disclosure in relation to financial instruments measured at amortised cost is providing information that enables users of the financial statements to evaluate the financial effect of interest revenue and expense, and the quality of financial assets including credit risk—including the overall effect on the entity's performance and financial position and the interaction between different aspects of the information provided. Accordingly:
 - an entity takes into account the initial estimate of expected credit losses when calculating amortised cost and to allocate that amount over the expected life of a financial asset. The aim is to achieve transparency about the different factors that affect interest revenue, interest expense and experience adjustments from revising cash flow estimates, which will be presented in the statement of comprehensive income; and
 - an entity discloses amounts presented in the statement of comprehensive income, inputs and assumptions used for determining credit loss estimates, and the quality of financial assets measured at amortised cost.

Issues for Discussion

The issues on which the AASB seeks input at the Roundtables are set out in the following questions:

Section A: Questions from the IASB ED *Financial Instruments: Amortised Cost and Impairment* and developed by AASB staff

Given the number of questions included in the IASB ED, the shaded questions will be discussed first from the perspectives of both for-profit entities and not-for-profit entities in the private and public sectors. Other questions and any further issues that Roundtable participants may wish to raise will be considered subject to time availability.

Additional questions, marked with asterisks (**), have been developed by AASB staff as key issues to consider when responding to the questions from the IASB ED. Participants should note that this list of issues is non-exhaustive.

Objective of amortised cost measurement

IASB ED Question 1

Is the description of the objective of amortised cost measurement in the exposure draft clear? If not, how would you describe the objective and why?

IASB ED Question 2

Do you believe that the objective of amortised cost set out in the exposure draft is appropriate for that measurement category? If not, why? What objective would you propose and why?

Measurement principles

IASB ED Question 3

Do you agree with the way that the exposure draft is drafted, which emphasises measurement principles accompanied by application guidance but which does not include implementation guidance or illustrative examples? If not, why? How would you prefer the standard to be drafted instead, and why?

IASB ED Question 4

- (a) Do you agree with the measurement principles set out in the exposure draft? If not, which of the measurement principles do you disagree with and why?
- (b) Are there any other measurement principles that should be added? If so, what are they and why should they be added?

** Do participants agree with the measurement model proposed in the IASB ED, which incorporates the accounting for impairment based on the assessment of expected cash flows? For example:

- (a) Application guidance, paragraph B8 of the IASB ED states,

“Historical data such as credit loss experience are adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical data are based and to remove effects of conditions in the historical period that do not exist currently. Estimates of changes in expected cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status...”.

Do participants believe that paragraph B8:

- (i) is helpful when making the assessment of changes in expected cash flows; and
 - (ii) would change current practice when assessing for impairment?
- (b) What are the participants’ views on recognising gains from favourable changes in expectations, or from reversals of impairment losses, under the proposed measurement model?
 - (c) How difficult do you think it will be to use expected values (i.e. probability-weighted numbers) in determining the impairment amount?

Participants should consider this from both conceptual and practicability viewpoints.

** Would it be appropriate to use ‘historical’ effective interest rates (determined by iteration at inception of a financial asset) as opposed to current discount rates (consistent with IAS 36) at least when cash flows are reassessed, in determining the carrying amount for financial instruments measured at amortised cost?

Presentation and disclosure

IASB ED Question 5

- (a) Is the description of the objective of presentation and disclosure in relation to financial instruments measured at amortised cost in the exposure draft clear? If not, how would you describe the objective and why?
- (b) Do you believe that the objective of presentation and disclosure in relation to financial instruments measured at amortised cost set out in the exposure draft is appropriate? If not, why? What objective would you propose and why?

IASB ED Questions 6 and 7 will be discussed together as they are closely related:

IASB ED Question 6

Do you agree with the proposed presentation requirements? If not, why? What presentation would you prefer instead and why?

IASB ED Question 7

- (a) Do you agree with the proposed disclosure requirements? If not, what disclosure requirement do you disagree with and why?
- (b) What other disclosures would you prefer (whether in addition to or instead of the proposed disclosures) and why?

Effective date and transition

IASB ED Question 8

Would a mandatory effective date of about three years after the date of issue of the IFRS allow sufficient lead-time for implementing the proposed requirements? If not, what would be an appropriate lead-time and why?

IASB ED Question 9

- (a) Do you agree with the proposed transition requirements? If not, why? What transition approach would you propose instead and why?
- (b) Would you prefer the alternative transition approach (described above in the summary of the transition requirements)? If so, why?
- (c) Do you agree that comparative information should be restated to reflect the proposed requirements? If not, what would you prefer instead and why? If you believe that the requirement to restate comparative information would affect the lead-time (see IASB ED Question 8) please describe why and to what extent.

IASB ED Question 10

Do you agree with the proposed disclosure requirements in relation to transition? If not, what would you propose instead and why?

Practical expedients

IASB ED Question 11

Do you agree that the proposed guidance on practical expedients is appropriate? If not, why? What would you propose instead and why?

IASB ED Question 12

Do you believe additional guidance on practical expedients should be provided? If so, what guidance would you propose and why? How closely do you think any additional practical expedients would approximate the outcome that would result from the proposed requirements, and what is the basis for your assessment?

** Is there a need for more consideration to be given to financial assets that are not loan receivables? For instance, participants should consider how the proposed measurement model would apply to, for example medium to longer term trade receivables.

Section B: Questions Specifically Related to Public Sector/Not-For-Profit Entities

** Do you think there are any proposals in the ED that are inappropriate for public sector entities or not-for-profit entities in particular? If so, what are those proposals and why do you regard them as inappropriate?