

List of Submissions to ED 230 *Classification and Measurement: Limited Amendments to IFRS 9*

- 1 Grant Thornton
- 2 Representatives of the Australian Accounting Profession
(CPA Australia and The Institute of Chartered Accountants in Australia)



Mr Kevin Stevenson
Chairman
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By Email: standard@aatbs.gov.au

13 February 2013

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Dear Kevin

**Exposure Draft ED 230 – ED/2012/4 - Classification and Measurement:
Limited Amendments to IFRS 9**

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on ED 230 which is a re-badged copy of the International Accounting Standards Board's (the Board) Exposure Draft Classification and Measurement: Limited Amendments to IFRS 9 (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations (NFPs). This submission has benefited with input from our clients, Grant Thornton International which will be finalising a global submission to the IASB by its due date of 28 March 2013, and discussions with key constituents.

We welcome the ED and are broadly supportive.

Our detailed comments set out in the Appendix to this letter.

If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED

Keith Reilly
National Head of Professional Standards

A. IASB Comments on specific proposals

Question 1

Do you agree that a financial asset with a modified economic relationship between principal and consideration for the time value of money and the credit risk could be considered, for the purposes of IFRS 9, to contain cash flows that are solely payments of principal and interest? Do you agree that this should be the case if, and only if, the contractual cash flows could not be more than insignificantly different from the benchmark cash flows? If not, why and what would you propose instead?

Question 2

Do you believe that this Exposure Draft proposes sufficient, operational application guidance on assessing a modified economic relationship? If not, why? What additional guidance would you propose and why?

Question 3

Do you believe that this proposed amendment to IFRS 9 will achieve the IASB's objective of clarifying the application of the contractual cash flow characteristics assessment to financial assets that contain interest rate mismatch features? Will it result in more appropriate identification of financial assets with contractual cash flows that should be considered solely payments of principal and interest? If not, why and what would you propose instead?

These proposals have been developed with the aim of providing relief for certain types of financial instruments which would be classified at fair value under the current requirements. However, this relief is very restrictive and, arguably, amounts to little more than a clarification or application of materiality. We also understand that the changes would not solve the problems in certain regulated markets where interest rates are set by a regulator or government agency without regard to a market-based link between interest rates and maturities. One prominent example of this is Chinese mortgage bonds where the interest rate is reset every 6 months by reference to the 2 year government rate.

Our view is that while the proposals are consistent with the IASB's depiction of interest as being compensation for the time value of money and credit risk, it may be necessary to think more flexibly about this topic. As currently drafted the proposals would mean that all Chinese mortgages would need to be accounted for at fair value. Given the decreased probability of the United States adopting IFRS and the importance of China as an economy, we suggest that it is politically important for the IASB to find a solution to this problem in order to encourage China to adopt IFRS.

Question 4

Do you agree that financial assets that are held within a business model in which assets are managed both in order to collect contractual cash flows and for sale should be required to be measured at fair value through OCI (subject to the contractual cash flow characteristics assessment) such that:

- a interest revenue, credit impairment and any gain or loss on derecognition are recognised in profit or loss in the same manner as for financial assets measured at amortised cost; and
- b all other gains and losses are recognised in OCI?

If not, why? What do you propose instead and why?

Question 5

Do you believe that the Exposure Draft proposes sufficient, operational application guidance on how to distinguish between the three business models, including determining whether the business model is to manage assets both to collect contractual cash flows and to sell? Do you agree with the guidance provided to describe those business models? If not, why? What additional guidance would you propose and why?

We acknowledge that in forming these proposals, the IASB has sought to address concerns from constituents. These include insurers, who are concerned that IFRS 9 as currently drafted would result in a mismatch between some insurance liabilities, for which re-measurements attributable to interest rate movements would be via OCI under the revised insurance accounting proposals, and the assets held to back these liabilities, which would be measured at fair value through profit or loss. Also, some banks are concerned that their liquidity portfolios would be forced into FVTPL under existing IFRS 9.

The introduction of a third measurement category however will:

- add complexity to IFRS 9 as a result of having two boundaries to the classification decision rather than one, making classification decisions more difficult and thereby defeating one of the original objectives of the project
- create the need for recycling of balances from OCI to profit or loss on impairment, potentially compromising IFRS 9's one impairment model

In assessing whether the benefits of a third measurement category outweigh these disadvantages, we suggest that the views of investors and preparers should be given priority.

We also suggest that the IASB should downplay the importance of convergence with US GAAP in making their decision given that the FASB is likely to adopt different impairment requirements to the IASB, meaning that their respective measurement approaches will differ in any case.

Question 6

Do you agree that the existing fair value option in IFRS 9 should be extended to financial assets that would otherwise be mandatorily measured at fair value through OCI? If not, why and what would you propose instead?

We agree that the existing fair value option in IFRS 9 should be extended to financial assets that would otherwise be mandatorily measured at fair value through OCI.

Question 7

Do you agree that an entity that chooses to early apply IFRS 9 after the completed version of IFRS 9 is issued should be required to apply the completed version of IFRS 9 (i.e. including all chapters)? If not, why? Do you believe that the proposed six-month period between the issuance of the completed version of IFRS 9 and when the prohibition on newly applying previous versions of IFRS 9 becomes effective is sufficient? If not, what would be an appropriate period and why?

We agree that prohibiting entities from newly applying previous version of IFRS 9 after the completed version of IFRS 9 is published will increase comparability between entities. We therefore support the proposal.

Question 8

Do you agree that entities should be permitted to choose to early apply only the 'own credit' provisions in IFRS 9 once the completed version of IFRS 9 is issued? If not, why and what do you propose instead?

We agree that entities should be permitted to choose to early apply only the own credit provisions in IFRS 9 once the completed version of IFRS 9 is issued.

Given the problems surrounding the endorsement of IFRS 9 in Europe, however, and the concern that many hold over the current treatment of own credit provisions under IAS 39, we believe a similar amendment should also be made to IAS 39 now, so as to allow entities to apply this change under the current standard as well.

Question 9

Do you believe there are considerations unique to first-time adopters that the IASB should consider for the transition to IFRS 9? If so, what are those considerations?

We are not aware of any considerations unique to first-time adopters that the IASB should consider.

B. AASB invitation to comment questions**Question 1**

Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

- a not-for-profit entities; and
- b public sector entities – including any implications for GAAP/GFS harmonisation.

We are not aware of any regulatory issues.

Question 2

Whether, overall, the proposals would result in financial statements that would be useful to users.

We agree that the proposals would result in financial statements that would be useful to users.

Question 3

Whether the proposals are in the best interests of the Australian economy.

We agree that the proposals are in the best interests of the Australian economy.

Question 4

Unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

We have no further comment.

18 February 2013

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

Email: standard@aasb.gov.au

Dear Kevin

Exposure Draft ED 230 Classification and Measurement: Limited Amendments to AASB 9

Thank you for the opportunity to comment on the above. CPA Australia and the Institute of Chartered Accountants in Australia (the Institute) have considered the exposure draft and our comments follow.

CPA Australia and the Institute represent over 200,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

We support the International Accounting Standards Board's (IASB) decision to undertake this project to make limited amendments to IFRS 9 that include clarification of the contractual cash flow characteristics of financial assets. While we are of the opinion that the clarification broadly achieves the desired outcomes, we do have concerns with some of the other proposals. These are explained in the attached submission to the IASB, which also includes our response to the specific questions for comment.

Our response to matters on which specific comment is requested by the AASB is included in the attached Appendix.

If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au or Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au.

Yours sincerely



Alex Malley
Chief Executive Officer
CPA Australia Ltd



Lee White
Chief Executive Officer
Institute of Chartered Accountants in Australia

Representatives of the Australian Accounting Profession



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- 1. Overall, do you consider the proposals would result in financial statements that would be useful to users?**

Whilst the ED is taking the right direction on some issues, there remain other issues (as outlined in our IASB letter) that we would like the IASB to address and which we believe highlight the need for the IASB to develop implementation guidance.

- 2. Do you consider there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**

(a) not-for-profit entities; and

(b) public sector entities, including GAAP/GFS implications?

No, we are not aware of any issues arising in the Australian environment that may affect the implementation of the proposals.

- 3. Do you consider the proposals are in the best interests of the Australian economy; and unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative?**

Adoption of new or revised IFRS is in the best interests of the Australian economy.

18 February 2013

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London

Submitted electronically via IASB website.

Dear Hans

Exposure Draft ED/2012/4 Classification and Measurement: Limited Amendments to IFRS 9

Thank you for the opportunity to comment on the above. CPA Australia and the Institute of Chartered Accountants in Australia (the Institute) have considered the exposure draft and our comments follow.

CPA Australia and the Institute represent over 200,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

We support the International Accounting Standards Board's (IASB) decision to undertake this project to make limited amendments to IFRS 9 that include clarification of the contractual cash flow characteristics of financial assets. While we are of the opinion that the clarification broadly achieves the desired outcomes, we do have concerns with some of the other proposals and we believe our concerns highlight the need to put in place a committee or some other body that would be able to provide relevant implementation guidance. A possible starting point for the committee would be to determine to what extent the existing Guidance on implementing IAS 39 remains relevant.

Our response to matters on which specific comment is requested is included in the attached Appendix.

If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au or Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au.

Yours sincerely



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Question 1

Do you agree that a financial asset with a modified economic relationship between principal and consideration for the time value of money and the credit risk could be considered, for the purposes of IFRS 9, to contain cash flows that are solely payments of principal and interest? Do you agree that this should be the case if, and only if, the contractual cash flows could not be more than insignificantly different from the benchmark cash flows? If not, why and what would you propose instead?

Yes, we agree with amendment to the application guidance in IFRS 9 to clarify the contractual cash flow characteristics of financial assets. However, we believe that further clarification would be helpful. The proposed paragraph B4.1.9B states “...when assessing a modified economic relationship, an entity shall consider cash flows on a comparable financial asset that does not contain the modification (benchmark cash flows)”. We believe the remainder of the paragraph including the example could be improved. Specifically, it remains unclear to us what “benchmark” means. For example, what does benchmark mean in a regulated market where the time value of money of a fixed interest loan that is subject to resets of the fixed interest rate as dictated by the regulator? Is the IASB referring to the shorter tenor rate or the regulated rate prescribed?

Question 2

Do you believe that this Exposure Draft proposes sufficient, operational application guidance on assessing a modified economic relationship? If not, why? What additional guidance would you propose and why?

No, we do not believe the operational application guidance is sufficient. We believe assessment of a modified economic relationship would be improved by the development of implementation guidance as was developed under IAS 39 so that there is clarity over specific situations, products or features of a product. We do not believe that the principles based language of the accounting standard will provide the needed clarity for decision making on complex issues such as this.

Question 3

Do you believe that this proposed amendment to IFRS 9 will achieve the IASB’s objective of clarifying the application of the contractual cash flow characteristics assessment to financial assets that contain interest rate mismatch features? Will it result in more appropriate identification of financial assets with contractual cash flows that should be considered solely payments of principal and interest? If not, why and what would you propose instead?

We believe the IASB’s objective will be partially achieved. However, we believe the IASB could improve achievement of its objective by developing implementation guidance to supplement IFRS 9.

Question 4

Do you agree that financial assets that are held within a business model in which assets are managed both in order to collect contractual cash flows and for sale should be required to be measured at fair value through OCI (subject to the contractual cash flow characteristics assessment) such that:

- a. interest revenue, credit impairment and any gain or loss on derecognition are recognised in profit or loss in the same manner as for financial assets measured at amortised cost; and
- b. all other gains and losses are recognised in OCI?

If not, why? What do you propose instead and why?

We agree with the proposal to introduce the additional classification. We understand the relief provided will address the problems of some preparers using IFRS 9 including those in the insurance industry. That said, we continue to be concerned about the lack of principles to establish the boundaries of what is “other comprehensive income”.

Further, we believe the proposal to introduce an additional classification gives rise to some interesting questions which require consideration and possible resolution, being:

- what is the consequence, if any, for an entity with multiple business models for managing its financial instruments that subsequently changes its strategy whereby it no longer employs a hold to collect and sell business model to a given portfolio?; and
- To prevent abuse should anti-abuse measures apply to the new classification similar to the tainting rules that currently apply to the held-to-maturity financial asset category?

Question 5

Do you believe that the Exposure Draft proposes sufficient, operational application guidance on how to distinguish between the three business models, including determining whether the business model is to manage assets both to collect contractual cash flows and to sell? Do you agree with the guidance provided to describe those business models? If not, why? What additional guidance would you propose and why?

Yes, we believe the examples provide introductory guidance on the way to proceed in the business model assessment.

Question 6

Do you agree that the existing fair value option in IFRS 9 should be extended to financial assets that would otherwise be mandatorily measured at fair value through OCI? If not, why and what would you propose instead?

Yes, we are generally supportive of the extension.

Question 7

Do you agree that an entity that chooses to early apply IFRS 9 after the completed version of IFRS 9 is issued should be required to apply the completed version of IFRS 9 (ie including all chapters)? If not, why? Do you believe that the proposed six-month period between the issuance of the completed version of IFRS 9 and when the prohibition on newly applying previous versions of IFRS 9 becomes effective is sufficient? If not, what would be an appropriate period and why?

Yes, we agree that an entity should not be able to early adopt the partial standard once a more substantial version is available.

Question 8

Do you agree that entities should be permitted to choose to early apply only the 'own credit' provisions in IFRS 9 once the completed version of IFRS 9 is issued? If not, why and what do you propose instead?

Yes, we agree that entities should be able to early adopt only the 'own credit' provisions in IFRS 9 once the completed version of IFRS 9 is completed.

Question 9

Do you believe there are considerations unique to first-time adopters that the IASB should consider for the transition to IFRS 9? If so, what are those considerations?

We have no comment on this question.