Australian Government
Australian Accounting Standards Board

Memorandum

To:	**AASB members**	**Date:**	26 March 2013
From:	**Christina Ng & Sue Lightfoot**	**Agenda Item:**	3.8 (M130)
Subject:	**Financial Instruments: Project Update**	**File:**	

Action

For information - receive an update on the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9 *Financial Instruments*.

Note that there will be no verbal update at the April 2013 AASB meeting.

Attachments

Agenda paper 3.8.1 – IASB Snapshot of ED/2013/3 *Financial Instruments: Expected Credit Losses*

Agenda paper 3.8.2 – IASB Investor Perspectives article on ED/2013/3

Agenda paper 3.8.3 – Comment letter on ED 236 from CPA and ICAA

Agenda paper 3.8.4 – Comment letters on ED 230 from NAB and APRA

Overview

Impairment

1 The AASB issued ED 237 *Financial Instruments: Expected Credit Losses* on 12 March 2013. ED 237 incorporates the IASB's ED/2013/3 *Financial Instruments: Expected Credit* Losses. Comments are due to the AASB by 10 May 2013 and to the IASB by 5 July 2013. (Electronic copies of both EDs are available at the hyperlinks above. Board Members who would like paper copies should contact Christina Ng at cng@aasb.gov.au)

2 The proposed model in ED/2013/3 is the IASB's third exposure draft in relation to proposing a model to replace the 'incurred loss' impairment requirements in IAS 39.

3 Agenda paper 3.8.1, the IASB Snapshot, provides a background to ED/2013/3 and further information on the proposals. Agenda paper 3.8.2, the IASB Investor Perspectives article, provides further background and some examples of how the proposed model is intended to operate.

4 The proposed model would apply to:

(a) financial assets measured at amortised cost, including trade receivables;

(b) financial assets that are mandatorily measured at fair value through other comprehensive income (if such a category is introduced, as currently has been proposed in ED2012/4 *Classification and Measurement: Limited Amendments to IFRS 9* which is open for comment to the IASB until 28 March 2013);

(c) loan commitments when there is a contractual obligation to extend credit;

(d) financial guarantees in the scope of IFRS 9 that are not at fair value through profit or loss; and

(e) lease receivables.

5 The key proposals in ED/2013/3 are as follows:

(a) to require recognition of credit losses earlier than the IAS 39 'incurred loss' model would allow. Loss recognition would not be dependent on the entity first identifying a credit loss event, which is a current requirement under IAS 39;

(b) to require an entity to distinguish between:

(i) financial instruments that <u>have not</u> deteriorated significantly in credit quality since initial recognition or that have low credit risk (for example, which are 'investment grade') at the reporting date. For these financial assets, 12-month expected credit losses would be recognised; and

(ii) financial instruments that <u>have</u> deteriorated significantly in credit quality since initial recognition (unless they have low credit risk at the reporting date). For these financial assets, lifetime expected credit losses are recognised; and

(c) to require an entity to recognise expected credit losses using current estimates of expected shortfalls in cash flows on those financial instruments as at the reporting date.

6 In December 2012, the FASB published a Proposed Accounting Standards Update *Financial Instruments—Credit Loss*. The FASB's proposed model would require lifetime expected credit losses to be recognised immediately on all financial instruments.

7 At the May 2013 AASB meeting, AASB staff will provide an analysis of comments on ED 237 (if any) and an issues paper of the IASB's proposals, including consideration of their proposals in comparison to the FASB's proposals, as the G20 remains keen that the IASB and the FASB developed a converged approach.

<u>General Hedge Accounting</u>

8 The IASB work plan as at 25 March 2013 indicates that the general hedge accounting chapter of IFRS 9 is targeted to be issued in Q2 or Q3 of 2013. A discussion paper on macro hedge accounting is now also targeted for Q2 or Q3 of 2013. Both were previously targeted to be issued prior to 30 June 2013.

9 The AASB issued ED 236 *Novation of Derivatives and Continuation of Hedge Accounting* (proposed amendments to AASB 9 and AASB 139) on 6 March 2013. ED 236 incorporates the IASB's ED/2013/2 *Novation of Derivatives and Continuation of Hedge Accounting*. Comments were due to the AASB by 25 March 2013 and are due to the IASB by 2 April 2013. (Electronic copies of both EDs are available at the hyperlinks above. Board Members who would like paper copies should contact Christina Ng at cng@aasb.gov.au). The IASB's ED was issued on 28 February 2013.

10 The ED proposes amendments to IAS 39 and [draft] IFRS 9 that would allow the continuation of hedge accounting in circumstances where a hedging instrument is novated to a central counterparty due to laws or regulations.

11 One comment letter has been received by the AASB as at the date of this memo – refer to Agenda paper 3.8.3 – Comment letter on ED 236 from CPA and ICAA dated 26 March 2013.

12 Given the short timeframe for comments to the IASB, the AASB staff intend to circulate a draft submission on the amendments to Board members and will table the final submission to the IASB at the April 2013 AASB meeting.

Classification and Measurement: Limited Amendments to IFRS 9

13 Two submissions on ED 230 *Classification and Measurement: Limited Amendments to IFRS 9* that were previously received were provided as Agenda Paper 8.5 in the February 2013 AASB meeting.

14 Two further submissions were received from NAB dated 25 March 2013 and APRA dated 11 March 2013 are attached as Agenda Paper 3.8.4.

15 AASB staff will circulate a draft submission on the amendments to Board members and will table the final submission to the IASB at the April 2013 AASB meeting.