Australian Government
Australian Accounting Standards Board

Memorandum

To:	**AASB members**	**Date:**	2 July 2013
From:	**Christina Ng & Sue Lightfoot**	**Agenda Item:**	7.1 (M132)
Subject:	**Financial Instruments: Project Update**	**File:**	

Action

Receive an update on the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9 *Financial Instruments*, in particular, the progress on the IASB's limited amendments to the classification and measurement of IFRS 9 and hedge accounting.

For information – note further comments received (Agenda paper 7.3) on AASB ED 237 *Financial Instruments: Expected Credit Losses* (which incorporates IASB ED/2013/3 of the same name) and the AASB's submission to the IASB on ED/2013/3 (Agenda paper 7.2).

Attachments

Agenda paper 7.2 – AASB submission to the IASB on ED/2013/3 *Financial Instruments: Expected Credit Losses* (electronic copy to be circulated via email when finalised and paper copy to be tabled)

Agenda paper 7.3 – Submissions 3, 4 & 5 to the AASB on ED 237 (QBE Insurance Group Limited, University of Technology, Sydney & Heads of Treasuries Accounting and Reporting Advisory Committee)

Overview

Classification and Measurement

At their June meeting the IASB and the FASB continued their discussions of the feedback on the classification and measurement proposals of the IASB's Exposure Draft ED/2012/4 *Classification and Measurement: Limited amendments to IFRS 9* (2010) (Proposed amendments to IFRS 9 (2010)), which was published on 28 November 2012 with comments requested by 28 March 2013.

IASB staff provided a summary of the views of the User's Survey, which closed on 31 May 2013. However, no decisions were made and the IASB and FASB intend to continue their redeliberations at their July meeting.

Hedge Accounting

On 27 June 2013 the IASB issued *Novation of Derivatives and Continuation of Hedge Accounting* (Amendments to IAS 39). The amendments change IAS 39 to allow hedge accounting to continue where a derivative, designated as a hedging instrument, is novated to effect clearing with a central counterparty (CCP) as a result of laws or regulation, if specific conditions are met.

The amendments are slightly broader than those originally proposed in the IASB's ED/2013/2 *Novation of Derivatives and Continuation of Hedge Accounting*, which was open for comment to the IASB until 2 April 2013, and incorporated into AASB ED 236[1] *Novation of Derivatives and Continuation of Hedge Accounting*. The scope has been broadened to allow continuation of hedge accounting where there is a voluntary novation to a CCP associated with a legislative or regulatory change and also where there is novation that provides the entity with indirect access to a CCP. In the staff's view, the expanded scope can be accepted given the due process the IASB followed (which included consideration of the AASB's view) and given that the types of novations for which relief is provided by the amendments are only those which arise as a result of laws or regulations.

Staff plan on following the normal process of incorporating those new requirements into Australian Accounting Standards. The amendments do not include any disclosure requirements and therefore there are no implications for Tier 2 'Reduced Disclosure Regime' entities arising from the amendments. Staff are not aware of any not-for-profit or public sector specific issues (none were brought to our attention through the Exposure Draft process), and therefore we do not envisage a significant delay in preparing a ballot draft of the relevant amending standard. Confirmation has been received from the Office of Best Practice Regulation that a Regulatory Impact Statement will not be required.

The forthcoming hedge accounting requirements in IFRS 9 will also include the same requirements. The IASB requirements on general hedge accounting are expected to be issued in Q3 of 2013.

Impairment

At its May 2013 AASB meeting, the Board considered feedback received from the AASB roundtable discussions held in Melbourne and Sydney[2] and two submissions[3] received on AASB ED 237 *Financial Instruments: Expected Credit Losses* (which incorporates IASB ED/2013/3 of the same name), and provided comments for inclusion in its submission to the IASB on ED/2013/3. Since the May 2013 meeting, three more submissions (Agenda paper 7.3) have been received from QBE Insurance Group Limited, the University of Technology Sydney and the Heads of Treasuries Accounting and Reporting Advisory Committee. The comments provided in these submissions are not inconsistent with the feedback we received at the AASB roundtable discussions.

Comments to the IASB on ED/2013/3 are due by 5 July 2013. At the time of writing this memo, a draft AASB submission on ED/2013/3 has been prepared through the AASB Financial Instruments Impairment Sub-committee (Brett Rix, John O'Grady, Kevin Stevenson, Peter Carlson and

1 The AASB's submission on ED/2013/2 is available on the AASB website [here]. It expressed that the AASB supported the proposals when novation occurs as a consequence of laws or regulations, but that the AASB did not support expanding the scope for other forms of novation of hedging instruments.

2 A summary of notes to the roundtable discussions was provided as Agenda paper 9.3 at the May 2013 AASB meeting. Click on Notes from Roundtables to access that Agenda paper.

3 Submissions 1 and 2 were provided as Agenda paper 9.4 at the May 2013 AASB meeting. Click on Sub 1 and Sub 2 to access that Agenda paper.

Roger Sexton) with consideration of the three submissions (Agenda paper 7.3) mentioned directly above.

As noted above, staff will circulate via email the finalised AASB submission to Board members and table a paper copy of the submission (Agenda paper 7.2) at the July 2013 AASB meeting.

Tier 2

Staff will provide a verbal update on Tier 2 ‘Reduced Disclosure Regime’ in relation to proposals for classification and measurement and impairment disclosures at the July AASB meeting.