Australian Government
Australian Accounting Standards Board

Memorandum

To:	**AASB members**	**Date:**	19 August 2013
From:	**Christina Ng & Sue Lightfoot**	**Agenda Item:**	10.1 (M133)
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 mandatory effective date of IFRS 9; limited amendments to classification and measurement; impairment and hedge accounting.

Receive an education session on the main points of the IASB's Macro Hedge Accounting project.

Attachments

Agenda paper 10.2 – IASB June 2013 IFRS Conference Slides: Macro Hedge Accounting

Overview

<u>Mandatory Effective Date of IFRS 9</u>

At its July 2013 meeting the IASB tentatively decided to defer the mandatory effective date of IFRS 9 again. The IASB had previously deferred the mandatory effective date from 1 January 2013 to the currently application date, being for annual reporting periods beginning on or after 1 January 2015. However no revised application date was agreed. The IASB agreed that date would be left open until the requirements for classification and measurement and impairment are finalised. The current versions of IFRS 9 (2009 and 2010) would continue to be available for early adoption.

<u>Classification and Measurement</u>

Own Credit Requirements

IASB ED/2012/4 *Classification and Measurement Limited Amendments to IFRS 9* included a proposal to permit entities to early apply the 'own credit requirements' for financial liabilities designated at fair value through profit or loss (FVPL). The own credit requirements would require an entity to present gains or losses attributable to changes in own credit risk of financial liabilities designated as FVPL in other comprehensive income (OCI).

At its July 2013 meeting, the IASB tentatively decided to make the 'own credit requirements' available for early application before the completed version of IFRS 9 is issued and would make the amendments to the transitional provisions of IFRS 9 at the same time as issuing a version of IFRS 9 that includes requirements for General Hedge Accounting.

'Contractual Cash Flows Characteristics' and Fair Value Through Other Comprehensive Income (FVOCI) Category

At their May and June meetings the IASB and FASB had jointly discussed the feedback on their respective classification and measurement proposals1 concerning the 'contractual cash flows characteristics' and the use of a FVOCI category for debt instruments. At their July meeting the staff presented a plan to the Boards for their joint deliberations. IASB and FASB staff will present a more detailed analysis of specific issues at subsequent meetings and deliberations are expected to be completed by the end of 2013.

Impairment

At their July 2013 meeting, the IASB and FASB received a summary of the main feedback received in the comment letters, the outreach activities and the fieldwork undertaken on their respective financial instruments impairment proposals[2]. No decisions were made.

IASB and FASB staff will present a more detailed analysis of feedback received on specific issues and a complete analysis of the final results from the IASB fieldwork at the 16-20 September 2013 meeting.

Hedge Accounting

General Hedge Accounting

The IASB work plan for general hedge accounting indicates that the IASB expects to issues a version of IFRS 9 that contains requirements for general hedge accounting in the second half of 2013. Previously the targeted date was Q3 2013.

Macro Hedge Accounting

IASB staff are in the process of drafting a discussion paper (DP) that is expected to be issued by the IASB in the second half of 2013.

At its July meeting the IASB continued to discuss the portfolio revaluation approach for macro hedge accounting, where items are revalued through profit of loss. A modified approach was discussed where the revaluation effect of revaluation effect from risk management instruments and managed exposures would be recognised in OCI, rather than in profit or loss.

The IASB decided to include the modified approach in the DP but expressed concern about its operational complexity.

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1 The IASB's Exposure Draft ED/2012/4 *Classification and Measurement: Limited amendments to IFRS 9 (2010)* was published on 28 November 2012 with comments requested by 28 March 2013. The FASB's proposed Accounting Standards Update *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* was published on 14 February 2013 with comments requested by 15 May 2013.

2 The IASB's Exposure Draft ED/2013/3 *Financial Instruments: Expected Credit Losses* was published on 7 March 2013 with comments requested by 5 July 2013. The FASB's proposed Accounting Standards Update *Financial Instruments—Credit Losses (Subtopic 825-15)* was published on 20 December 2012 with comments requested by 31 May 2013.

Four disclosure ‘themes’ were identified to be included in the DP:

- From users on the usefulness of the proposed information
- From preparers on the feasibility and cost of obtaining the information, and how to balance transparency with commercial sensitivities.

The IASB also discussed whether disclosures should be confined to the scope of ‘macro hedge accounting’ or should be holistic, even if macro hedge accounting was of a subset of the holistic view.