Australian Government
Australian Accounting Standards Board

Memorandum

To:	**AASB Members**	**Date:**	2 October 2013
From:	**Christina Ng & Sue Lightfoot**	**Agenda Item:**	7.1
Subject:	**Financial Instruments Project Update**	**File:**	

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 of the classification and measurement, and impairment phases; and consider whether there are any issues that need to be raised with the IASB on tentative decisions made by the IASB.
- submissions received on the Tier 2 Supplement to ED 230 *Classification and Measurement: Limited Amendments to AASB 9* and Tier 2 Supplement to ED 237 *Financial Instruments: Expected Credit Losses*.

Receive an education session on the main points of the IASB's macro hedge accounting (portfolio revaluation approach) project.

Attachments

Agenda paper 7.2 – IASB June 2013 IFRS Conference Slides: Macro Hedge Accounting

Agenda paper 7.3 – Slides: IASB tentative decisions on Classification and Measurement and Impairment (to be tabled)

Background

<u>Classification and Measurement</u>

In December 2012, the AASB issued ED 230 *Classification and Measurement: Limited Amendments to IFRS 9*, which incorporated IASB ED/2012/4 (of the same title). The comment periods for ED 230 and ED/2012/4 closed on 13 February 2013 and 28 March 2013 respectively.

At their joint July 2013 meeting, the IASB and FASB decided to jointly deliberate specific issues raised by respondents on ED/2012/4 and the FASB's proposed Accounting Standards Update *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (issued in February 2013).

At their joint September 2013 meeting, the IASB and FASB made a number of tentative decisions to clarify the criterion of what is 'solely payments of principal and interest' (SPPI) used for determining whether a financial asset is eligible to be classified and measured at other than fair value through profit or loss (FVPL). An overview of the tentative decisions and preliminary staff views will be tabled at this AASB meeting (Tabled agenda paper 7.3).

The IASB and FASB are expected to discuss the business model assessment (and the proposed category for debt instruments to be measured at fair value through other comprehensive income) at their next joint meeting on 28-31 October 2013. AASB staff will provide an update of these discussions at the December AASB meeting.

The IASB is targeting completion of its redeliberations on the limited amendments to IFRS 9 by the end of 2013 and issuance of a complete version of IFRS 9 in Q1/Q2 of 2014.

<u>Impairment</u>

In March 2013, the AASB issued ED 237 *Financial Instruments: Expected Credit Losses*, which incorporated IASB ED/2013/3 (of the same title). The comment period for ED 237 and ED/2013/3 closed on 10 May 2013 and 5 July 2013 respectively.

At their joint 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 impairment proposals.

At their joint September 2013 meeting, the IASB and FASB were requested to make decisions in relation to their respective proposals on the assumption that they were to proceed to finalise their exposure drafts independently.

In relation to ED/2013/3 the IASB deliberated:

(a) the timeliness of the recognition of lifetime expected credit losses (ECL);

(b) the measurement objective for Stage 1 (i.e. the appropriateness of the 12-month ECL); and

(c) the definition of default.

These topics were also discussed at the September 2013 IASB's Accounting Standards Advisory Forum (ASAF). An overview of the IASB tentative decisions, ASAF discussion and AASB staff preliminary views will be tabled at this AASB meeting (Tabled agenda paper 7.3).

The FASB tentatively decided to clarify some characteristics of its proposed impairment model[1] in response to issues raised during its comment period. The proposal to require the recognition of lifetime ECL at initial recognition on financial instruments was not discussed at this meeting.

The IASB and FASB are expected to continue discussions of their proposals at their joint 28-31 October 2013 meeting. The IASB and FASB indicated that they would consider how best to resolve any differences that resulted from their tentative decisions at the end of their joint deliberations. AASB staff will provide an update of these discussions at the December AASB meeting.

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[1] The FASB's proposed Accounting Standards Update *Financial Instruments—Credit Losses* (Subtopic 825-15) would require lifetime ECL to be recognised immediately on initial recognition on all financial instruments. In its submission to the IASB in relation to ED/2013/3, the AASB was not supportive of a model that would require a lifetime loss allowance from initial recognition as it would not faithfully represent the underlying economics of financial instruments.

The IASB is targeting completion of its redeliberations on impairment by the end of 2013 and issuance of a complete version of IFRS 9 in Q1/Q2 of 2014.

Macro Hedge Accounting

IASB staff are in the process of drafting a discussion paper (DP) on macro hedge accounting that is expected to be issued by the IASB in Q4 of 2013.

The DP is expected to propose a 'portfolio revaluation approach'. Under that approach derivatives would be at FVPL and 'exposures' would be revalued through profit or loss only for the specific risk(s) identified as being managed. A key question of the DP will be concerning the scope of the approach. The use of OCI is also expected to be raised in the DP.

AASB staff will provide an education session on the main points of the project at this AASB meeting (Agenda paper 7.2).

Tier 2 Exposure Drafts

In July 2013, as part of its Tier 2 Reduced Disclosure Regime (RDR) policy, the AASB issued Tier 2 Supplement to ED 230 *Classification and Measurement: Limited Amendments to AASB 9* (following IASB ED/2012/4) and Tier 2 Supplement to ED 237 *Financial Instruments: Expected Credit Losses* (following IASB ED/2013/3). The comment periods for both Tier 2 EDs closed on 16 September 2013. At the time of writing this memo, two submissions from Ernst & Young and PricewaterhouseCoopers (Agenda papers 3.9 and 3.10) were received commenting on each of the Tier 2 EDs.

In summary, the submissions received indicated:

(a) there is general support for all the proposals in Tier 2 Supplement to ED 230; and

(b) there is general support for most of the proposals in Tier 2 Supplement to ED 237. However, some comments highlighted the possible duplication of disclosures proposed to be retained in the Tier 2 Supplement to ED 237 and existing disclosures in AASB 7 *Financial Instruments: Disclosures*.

Staff will provide a detailed analysis of the submissions, and staff recommendations for RDR when the final standards with the final disclosures in respect of these phases of IFRS 9 are issued by the IASB (as noted above, the IASB is targeting issuance of the final standard for these phases by Q1/Q2 2014).