



Australian Government  
Australian Accounting Standards Board

## Memorandum

<b>To:</b>	<b>AASB Members</b>	<b>Date:</b>	28 January 2014
<b>From:</b>	<b>Sue Lightfoot</b>	<b>Agenda Item:</b>	7.1
<b>Subject:</b>	<b>Financial Instruments: Project Update</b>	<b>File:</b>	

### 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 of the classification and measurement, and impairment phases.

Consider whether there are any issues that need to be raised with the IASB on tentative decisions made by the IASB.

Consider staff recommendation on deletion of paragraph 21B of AASB 7.

### Attachments

Agenda Paper 7.2 – IASB tentative decisions re: Impairment [to be tabled]

Agenda Paper 7.3 – IASB tentative decisions re: Classification and Measurement [to be tabled]

### Background

To date the IASB has issued:

1. IFRS 9 (issued in 2009) addressing classification and measurement of financial assets;
2. IFRS 9 (issued in 2010) addressing classification and measurement of both financial assets and financial liabilities; and
3. Amendments to IFRS 9 (issued in 2013) with the main amendments as follows:
  - i) to incorporate Chapter 6 *Hedge Accounting*;
  - ii) to permit the requirements relating to the 'own credit risk' of financial liabilities measured at fair value to be applied without applying the other requirements of IFRS 9 at the same time; and

- iii) to remove the mandatory application date (which previously was for annual periods beginning on or after 1 January 2015 with early application permitted).

Proposals for amendments to classification and measurement were proposed in the IASB's ED/2012/4 *Classification and Measurement: Limited Amendments to IFRS 9* issued in November 2012.

Proposals on impairment have been included in three EDs to date, most recently in ED/2013/3 *Financial Instruments: Expected Credit Losses* issued in March 2013.

Macro hedge accounting has been scoped out of the IFRS 9 project. The most recent IASB work plan identifies that the IASB is targeting issuance of a Discussion Paper on Macro Hedge Accounting in Q1 of 2014.

## General Hedge Accounting

[AASB 2013-9](#) *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* was approved by the AASB on 20 December 2013.

Part C of AASB 2013-9 makes amendments to a number of Australian Accounting Standards including AASB 9 *Financial Instruments*. The main amendments in Part C of AASB 2013-9 are as follows

- i) to incorporate Chapter 6 *Hedge Accounting*;
- ii) to permit the requirements relating to the 'own credit risk' of financial liabilities measured at fair value to be applied without applying the other requirements of AASB 9 at the same time; and
- iii) to defer the mandatory application date of AASB 9 to annual reporting periods beginning on or after 1 January 2017 (previously annual reporting periods beginning on or after 1 January 2015 with early adoption permitted). [Note that the mandatory application date differs from IFRS 9. This was done for legislation reasons and is subject to review].

## Classification and Measurement and Impairment

In its January meeting (in part with the FASB) the IASB continued to redeliberate on ED/2012/4 on limited amendments to classification and measurement and ED/2013/3 on impairment.

The most recent IASB work plan identifies that the IASB is targeting issuance of those phases of IFRS 9 as a standard in Q2 2014.

Staff will provide a detailed update on the tentative decisions of the IASB on those phases of the IFRS 9 project at the February AASB meeting.

## Incorporation of information by cross-reference

The amendments issued by the IASB in 2013 included the addition of paragraph 21B to IFRS 7 *Financial Instruments: Disclosures* under the heading ‘Hedge Accounting’.

AASB 2013-9 incorporates that paragraph into AASB 7 *Financial Instruments: Disclosures*. Paragraph 21B of AASB 7 (and IFRS 7) reads as follows:

- 21B An entity shall present the required disclosures in a single note or separate section in its financial statements. However, an entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

At its October 2013 meeting, the Board considered the potential reinstatement of paragraph B6 of IFRS 7 in AASB 7, which was previously deleted from the principal version of AASB 7. Paragraph B6 is similar to paragraph 21B above and is under the heading ‘Nature and extent of risks arising from financial instruments (paragraph 31-42).

In its October meeting the Board decided that paragraph B6 should not be reinstated on the basis that it may have unintended consequences in an Australian reporting context. The Board decided that paragraph B6 should be included within the ‘Deleted IFRS 7 Text’ section at the end of AASB 7. The Board also decided that the Comparison with IFRS 7 in the introduction to AASB 7 should include a clarification of the reason why paragraph B6 was deleted from AASB 7.

For consistency with paragraph B6, staff recommend that paragraph 21B should also be deleted from AASB 7 and an explanation should be given in the Comparison with IFRS 7 in the introduction to AASB 7.

## **Question to Board members:**

Does the Board agree with the staff’s recommendation to delete paragraph 21B from AASB 7?