Australian Government
Australian Accounting Standards Board

Memorandum

To:	**AASB Members**	**Date:**	24 March 2014
From:	**Sue Lightfoot**	**Agenda Item:**	12.1 (M137)
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 of the classification and measurement, and impairment phases.

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

Background

IASB proposals on IFRS 9 impairment have been included in three EDs to date: Most recently, the AASB issued ED 237 *Financial Instruments: Expected Credit Losses* in March 2013 for comment by 10 May 2013. ED 237 incorporated the IASB ED/2013/3 of the same name, which was due for comment by 5 July 2013. ED 237 attracted 9 comment letters. The AASB comment letter to the IASB on ED/2013/3 dated 10 July 2013 can be located on the AASB website here.

Proposals for amendments to classification and measurement were proposed in the AASB's ED 230 *Classification and Measurement: Limited Amendments to IFRS 9* issued in November 2012 for comment by 28 March 2013. ED 230 incorporated the IASB ED/2012/4 of the same name. ED 230 attracted 8 comment letters. The AASB comment letter to the IASB on ED/2012/4 dated 5 April 2013 can be located on the AASB website here.

The most recent IASB work plan identifies that the IASB is targeting issuance of the remaining phases of IFRS 9 (including impairment and classification and measurement) as a standard in Q2 2014.

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.

IFRS 9 Application Date

In its February meeting the IASB tentatively decided to require an entity to apply IFRS 9 for annual periods beginning on or after 1 January 2018.

The IASB decided that the mandatory effective date of IFRS 9 should not depend on the timing of the Insurance Contracts project. However, in finalising the Insurance Contracts project, the IASB would consider the need for additional transition relief so that entities that issue insurance contracts would not be disadvantaged if they are required to apply IFRS 9 before they apply the upcoming new Insurance Contracts Standard.

In Australia, AASB 2013-9 deferred the application date of AASB 9 to annual reporting periods beginning on or after 1 January 2017. The rationale for this is given in Agenda Paper 9.1 of the December 2013 AASB meeting.

Staff therefore recommend that, in due course, an amendment is made to AASB 9 to align the application date of AASB 9 with the expected application date of IFRS 9, ie. 1 January 2018.

1) Question to Board members: Does the Board wish to amend the application date of AASB 9 to annual reporting periods beginning on or after 1 January 2018?

Impairment – Due Process

In its February meeting the IASB considered whether there was a need to re-expose its impairment proposals and decided re-exposure was not necessary, and that it considered that all necessary due process steps had been completed. IASB staff were instructed to proceed to draft the ballot documents for impairment to be incorporated into IFRS 9.

None of the IASB members indicated an intention to dissent.

2) Question to Board members: Does the Board have any concerns regarding the IASB conclusion that all necessary due process steps have been completed?

Classification and Measurement – Due Process

In its February meeting the IASB considered whether there was a need to re-expose its limited amendments to the classification and measurement and decided re-exposure was not necessary, and that it considered that all necessary due process steps had been completed. IASB staff were instructed to proceed to draft the ballot documents for the limited amendments to classification and measurement in IFRS 9.

Two Board members indicated they may dissent because they do not agree with the introduction of a third classification category for debt instruments (fair value through other comprehensive income).

3) Question to Board members: Does the Board have any concerns regarding the IASB conclusion that all necessary due process steps have been completed?

Incorporation of information by cross-reference

In its February meeting (refer to Agenda Paper 7.1) the AASB decided to delete paragraph 21B from AASB 7 *Financial Instruments: Disclosures*. Paragraph 21B concerns incorporation of information by cross-reference. The deletion was intended to result in consistency with paragraph B6 of AASB 7, which was previously deleted from AASB 7.

AASB staff note that the first sentence of paragraph 21B contains a requirement concerning presentation of hedge accounting disclosures, ‘in a single note or separate sections in…financial statements’. However, that requirement is not repeated in paragraph B6. The two paragraphs are given below to illustrate this point.

Paragraph 21B of AASB 7 (and IFRS 7), under the heading ‘Hedge accounting’ 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.

Paragraph B6 of IFRS 7, under the heading Nature and Extent of Risks Arising from Financial Instruments (paragraphs 31-42)’ reads as follows:

> B6 The disclosures required by paragraphs 31-42 shall be either given in the financial statements or 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.

Staff wish to confirm that the Board’s intention was to retain the first sentence and only delete the second and third sentences of paragraph 21B from AASB 7. Doing so would result in consistency with the treatment of paragraph B6, but retain the additional requirement on presentation of disclosures within the financial statements introduced by 21B.

4) Question to Board members:

Does the Board wish to retain the first sentence and only delete the second and third sentences of paragraph 21B from AASB 7?