

**International Financial Reporting Standard**

# **Financial Instruments**

**October 2010**

**IMPLEMENTATION GUIDANCE – AMENDMENTS**

**[IFRS 1, 4, 5 & 7 and IAS 1, 18, 27, 32, 37 & 39 and IFRIC 12]**

**[Related to AASB 2010-7]**

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## Appendix

### Amendments to guidance on other IFRSs

*The following amendments to guidance on IFRSs are necessary in order to ensure consistency with IFRS 9 Financial Instruments and the related amendments to other IFRSs.*

#### **IFRS 1 *First-time Adoption of International Financial Reporting Standards***

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- IGA1 The heading above paragraph IG52 and paragraphs IG52–IG58A and IG59 are amended to read as follows:

#### **IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments***

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- IG52 An entity recognises and measures all financial assets and financial liabilities in its opening IFRS statement of financial position in accordance with IFRS 9, except as specified in paragraphs B2–B6 of the IFRS, which address derecognition and hedge accounting.

#### **Recognition**

- IG53 An entity recognises all financial assets and financial liabilities (including all derivatives) that qualify for recognition in accordance with IFRS 9 and have not yet qualified for derecognition in accordance with IFRS 9, except non-derivative financial assets and non-derivative financial liabilities derecognised in accordance with previous GAAP before 1 January 2004, to which the entity does not choose to apply paragraph B3 (see paragraphs B2 and B3 of the IFRS). For example, an entity that does not apply paragraph B3 does not recognise assets transferred in a securitisation, transfer or other derecognition transaction that occurred before 1 January 2004 if those transactions qualified for derecognition in accordance with previous GAAP. However, if the entity uses the same securitisation arrangement or other derecognition arrangement for further transfers after 1 January 2004, those further transfers qualify for derecognition only if they meet the derecognition criteria of IFRS 9.

- IG54 An entity does not recognise financial assets and financial liabilities that do not qualify for recognition in accordance with IFRS 9, or have already qualified for derecognition in accordance with IFRS 9.

## **Embedded derivatives**

- IG55 When IFRS 9 requires an entity to separate an embedded derivative from a host contract, the initial carrying amounts of the components at the date when the instrument first satisfies the recognition criteria in IFRS 9 reflect circumstances at that date (IFRS 9 paragraph 4.3.3). If the entity cannot determine the initial carrying amounts of the embedded derivative and host contract reliably, it measures the entire combined contract as at fair value through profit or loss (IFRS 9 paragraph 4.3.6).

## **Measurement**

- IG56 In preparing its opening IFRS statement of financial position, an entity applies the criteria in IFRS 9 to identify on the basis of the facts and circumstances that exist at the date of transition to IFRSs those financial assets and financial liabilities that are measured at fair value and those that are measured at amortised cost. The resulting classifications are applied retrospectively.
- IG57 ... first satisfied the recognition criteria in IFRS 9. However, ...
- IG58 An entity's estimates of impairments of financial assets measured at amortised cost at the date of transition to IFRSs are consistent with estimates made for the same date ...

## **Transition adjustments**

- IG58A An entity shall treat an adjustment to the carrying amount of a financial asset or financial liability as a transition adjustment to be recognised in the opening balance of retained earnings at the date of transition to IFRSs only to the extent that it results from adopting IAS 39 and IFRS 9. Because all derivatives, other than those that are financial guarantee contracts or are designated and effective hedging instruments, are measured at fair value through profit or loss, the differences between the previous carrying amount (which may have been zero) and the fair value of the derivatives are recognised as an adjustment of the balance of retained earnings at the beginning of the financial year in which

IAS 39 and IFRS 9 are initially applied (other than for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

IG59 An entity may, in accordance with its previous GAAP, have measured investments at fair value and recognised the revaluation gain outside profit or loss. If an investment is classified as at fair value through profit or loss, the pre-IFRS 9 revaluation gain that had been recognised outside profit or loss is reclassified into retained earnings on initial application of IFRS 9. If, on initial application of IFRS 9, an investment in an equity instrument is classified as at fair value through other comprehensive income, then the pre-IFRS 9 revaluation gain is recognised in a separate component of equity. Subsequently, the entity recognises gains and losses on the financial asset in other comprehensive income (except dividends, which are recognised in profit or loss) and accumulates the cumulative gains and losses in that separate component of equity. On subsequent derecognition, the entity may transfer that separate component of equity within equity.

IGA2 IG Example 11, paragraph IG63 is amended to read as follows:

The table 'Reconciliation of equity at 1 January 20X4 (date of transition to IFRSs)' is amended to read as follows:

<b>Reconciliation of equity at 1 January 20X4 (date of transition to IFRSs)</b>				
Note		<i>Previous GAAP CU</i>	<i>Effect of transition to IFRSs CU</i>	<i>IFRSs CU</i>
1	Property, plant and equipment	8,299	100	8,399
2	Goodwill	1,220	150	1,370
2	Intangible assets	208	(150)	58
3	Financial assets	3,471	420	3,891
	Total non-current assets	13,198	520	13,718
	Trade and other receivables	3,710	0	3,710
4	Inventories	2,962	400	3,362
<i>continued...</i>				

<i>...continued</i>				
5	Other receivables	333	431	764
	Cash and cash equivalents	748	0	748
	Total current assets	7,753	831	8,584
	Total assets	20,951	1,351	22,302
	Interest-bearing loans	9,396	0	9,396
	Trade and other payables	4,124	0	4,124
6	Employee benefits	0	66	66
7	Restructuring provision	250	(250)	0
	Current tax liability	42	0	42
8	Deferred tax liability	579	460	1,039
	Total liabilities	14,391	276	14,667
	Total assets less total liabilities	6,560	1,075	7,635
	Issued capital	1,500	0	1,500
5	Hedging reserve	0	302	302
9	Retained earnings	5,060	773	5,833
	Total equity	6,560	1,075	7,635

Note 3 to the reconciliation of equity at 1 January 20X4 is amended to read as follows:

- |   |  |
|---|--|
| 3 | Financial assets are all classified at fair value through profit or loss in accordance with IFRSs and are carried at their fair value of CU3,891. They were carried at cost of CU3,471 in accordance with previous GAAP. The resulting gains of CU294 (CU420, less related deferred tax of CU126) are included in retained earnings. |
|---|--|

Note 8 to the reconciliation of equity at 1 January 20X4 is amended to read as follows:

8	The above changes increased the deferred tax liability as follows:	
		CU
	Hedging reserve (note 5)	129
	Retained earnings	331
	Increase in deferred tax liability	<u>460</u>
	Because the tax base at 1 January 20X4 of the items reclassified from intangible assets to goodwill (note 2) equalled their carrying amount at that date, the reclassification did not affect deferred tax liabilities.	

Note 9 to the reconciliation of equity at 1 January 20X4 is amended to read as follows:

9	The adjustments to retained earnings are as follows:	
		CU
	Depreciation (note 1)	100
	Financial assets (note 3)	420
	Production overhead (note 4)	400
	Pension liability (note 6)	(66)
	Restructuring provision (note 7)	250
	Tax effect of the above	<u>(331)</u>
	Total adjustment to retained earnings	<u>773</u>

The reconciliation of total comprehensive income for 20X4 is amended to read as follows:

Reconciliation of total comprehensive income for 20X4				
Note		<i>Previous GAAP CU</i>	<i>Effect of transition to IFRSs CU</i>	<i>IFRSs CU</i>
	Revenue	20,910	0	20,910
1, 2, 3	Cost of sales	(15,283)	(97)	(15,380)
	Gross profit	5,627	(97)	5,530
6	Other income	0	180	180
1	Distribution costs	(1,907)	(30)	(1,937)
1, 4	Administrative expenses	(2,842)	(300)	(3,142)
	Finance income	1,446	0	1,446
	Finance costs	(1,902)	0	(1,902)
	Profit before tax	422	(247)	175
5	Tax expense	(158)	74	(84)
	<b>Profit (loss) for the year</b>	264	(173)	91
7	Cash flow hedges	0	(40)	(40)
8	Tax relating to other comprehensive income	0	(29)	(29)
	<b>Other comprehensive income</b>	0	(69)	(69)
	<b>Total comprehensive income</b>	264	(242)	22

Note 6 to the reconciliation of total comprehensive income for 20X4 is amended to read as follows:

6	Financial assets at fair value through profit or loss increased in value by CU180 during 20X4. They were carried at cost in accordance with previous GAAP. Fair value changes have been included in 'Other income'.
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## IFRS 4 *Insurance Contracts*

IGA3 In the table in IG Example 1, the ‘Treatment in Phase I’ column of contract types 1.7–1.12, 1.15, 1.18, 1.19 and 1.20(a) are amended to read as follows:

1.7	<p>Not an insurance contract at inception, if the insurer can reprice the mortality risk without constraints. Within the scope of IFRS 9 <i>Financial Instruments</i> unless the contract contains a discretionary participation feature.</p> <p>Will become an insurance contract when the annuity rate is fixed (unless the contingent amount is insignificant in all scenarios that have commercial substance).</p>
1.8	Within the scope of IFRS 9.
1.9	Paragraph 35 of the IFRS sets out requirements for these contracts, which are excluded from the scope of IFRS 9.
1.10	Within the scope of IFRS 9. Payments denominated in unit values representing the fair value of the specified assets are measured at current unit value (see paragraph B4.3.8(g) of IFRS 9).
1.11	<p>Insurance contract, but within the scope of IFRS 9, not IFRS 4. However, if the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either IFRS 9 and IAS 32<sup>(b)</sup> or IFRS 4 to such financial guarantee contracts.</p> <p>The legal form of the contract does not affect its recognition and measurement.</p> <p>Accounting by the holder of such a contract is excluded from the scope of IFRS 9 and IFRS 4 (unless the contract is a reinsurance contract). Therefore, paragraphs 10–12 of IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> apply. Those paragraphs specify criteria to use in developing an accounting policy if no IFRS applies specifically to an item.</p>
1.12	Not an insurance contract. A derivative within the scope of IFRS 9.
1.15	<p>Insurance contract within the scope of the IFRS (unless changes in the condition of the asset have an insignificant effect). The risk of changes in the fair value of the non-financial asset is not a financial risk because the fair value reflects not only changes in market prices for such assets (a financial variable) but also the condition of the specific asset held (a non-financial variable).</p> <p>However, if the contract compensates the beneficiary only for changes in market prices and not for changes in the condition of the beneficiary's asset, the contract is a derivative and within the scope of IFRS 9.</p> <p>Residual value guarantees given by a lessee under a finance lease are within the scope of IAS 17 <i>Leases</i>.</p>
1.18	Insurance risk is insignificant. Therefore, the contract is a financial asset within the scope of IFRS 9. Servicing fees are within the scope of IAS 18 (recognise as services are provided, subject to various conditions).
<i>continued...</i>	



<i>...continued</i>	
1.19	Financial instrument with embedded derivative within the scope of IFRS 9.
1.20	<p>The contract is an insurance contract, and contains an insurance component (with the issuer as policyholder and the holder as the insurer) and a deposit component.</p> <p>(a) If specified conditions are met, paragraph 10 of the IFRS requires the holder to unbundle the deposit component and apply IFRS 9 to it.</p> <p>(b) ...</p>

IGA4 Paragraph IG3 is amended to read as follows:

IG3 IFRS 9 requires an entity to separate embedded derivatives that meet specified conditions from the host instrument that contains them, measure the embedded derivatives at fair value and recognise changes in their fair value in profit or loss. However, an insurer need not separate an embedded derivative that itself meets the definition of an insurance contract (paragraph 7 of the IFRS). Nevertheless, separation and fair value measurement of such an embedded derivative are not prohibited if the insurer's existing accounting policies require such separation, or if an insurer changes its accounting policies and that change meets the criteria in paragraph 22 of the IFRS.

IGA5 In the table in IG Example 2, the 'Treatment if embedded in a host insurance contract' and 'Treatment if embedded in a host investment contract' columns of embedded derivative types 2.4, 2.5, 2.6(b), 2.12 and 2.14–2.17 are amended to read as follows:

<b>Type</b>	<b>Treatment if embedded in a host insurance contract</b>	<b>Treatment if embedded in a host investment contract</b>
2.4	<p>The embedded guarantee is not an insurance contract (unless significant payments are life-contingent<sup>(a)</sup>). However, it is closely related to the host contract (paragraph B4.3.8(b) of IFRS 9). Fair value measurement is not required (but not prohibited).</p> <p>If significant payments are life-contingent, the contract is an insurance contract and contains a deposit component (the guaranteed minimum). However, an insurer is not required to unbundle the contract if it recognises all obligations arising from the deposit component (paragraph 10 of the IFRS).</p> <p>If cancelling the deposit component requires the policyholder to cancel the insurance component, the two cancellation options may be interdependent; if the option to cancel the deposit component cannot be measured separately (ie without considering the other option), both options are regarded as part of the insurance component (paragraph B4.3.8(h) of IFRS 9).</p>	<p>Fair value measurement is not permitted (paragraph B4.3.8(b) of IFRS 9).</p>
2.5	<p>The embedded guarantee is not an insurance contract (unless the embedded guarantee is life-contingent to a significant extent). Fair value measurement is required (paragraph B4.3.8(b) of IFRS 9).</p>	<p>Fair value measurement is required (paragraph B4.3.8(b) of IFRS 9).</p>
2.6(b)	<p>The embedded derivative is not an insurance contract. Fair value measurement is required (unless the guarantee is regarded as closely related to the host contract because the guarantee is an un-leveraged interest floor that is at or out of the money at inception, see paragraph B4.3.8(b) of IFRS 9).</p>	<p>Fair value measurement is required (unless the guarantee is regarded as closely related to the host contract because the guarantee is an un-leveraged interest floor that is at or out of the money at inception, see paragraph B4.3.8(b) of IFRS 9).</p>
<i>continued...</i>		

<i>...continued</i>		
<b>Type</b>	<b><i>Treatment if embedded in a host insurance contract</i></b>	<b><i>Treatment if embedded in a host investment contract</i></b>
2.12	<p>Fair value measurement is not required (but not prohibited: paragraph 8 of the IFRS).</p> <p>The surrender value may be viewed as a deposit component, but the IFRS does not require an insurer to unbundle a contract if it recognises all its obligations arising under the deposit component (paragraph 10).</p>	<p>The surrender option is closely related to the host contract if the surrender value is approximately equal to the amortised cost at each exercise date (paragraph B4.3.5(e) of IFRS 9). Otherwise, the surrender option is measured at fair value.</p>
2.14	<p>The option is not closely related to the host contract (unless the option is life-contingent to a significant extent). Fair value measurement is required (paragraphs 8 of the IFRS and B4.3.5 (c) and (d) of IFRS 9).</p>	<p>Fair value measurement is required (paragraph B4.3.5 (c) and (d) of IFRS 9).</p>
2.15	<p>If the insurer measures that portion of its obligation at account value, no further adjustment is needed for the option (unless the surrender value differs significantly from account value) (see paragraph B4.3.8(g) of IFRS 9). Otherwise, fair value measurement is required.</p>	<p>If the insurer regards the account value as the amortised cost or fair value of that portion of its obligation, no further adjustment is needed for the option (unless the surrender value differs significantly from account value). Otherwise, fair value measurement is required.</p>
2.16	<p>The embedded derivative is not an insurance contract and is not closely related to the contract (paragraph B4.3.5(f) of IFRS 9). Fair value measurement is required.</p>	<p>Fair value measurement is required.</p>
2.17	<p>The embedded derivative (option to receive the persistency bonus) is not an insurance contract (unless the persistency bonus is life-contingent to a significant extent). Insurance risk does not include lapse or persistency risk (paragraph B15 of the IFRS). Fair value measurement is required.</p>	<p>An option or automatic provision to extend the remaining term to maturity of a debt instrument is not closely related to the host debt instrument unless there is a concurrent adjustment to the approximate current market rate of interest at the time of the extension (paragraph B4.3.5(b) of IFRS 9). If the option or provision is not closely related to the host instrument, fair value measurement is required.</p>

IGA6 IG Example 3 is amended to read as follows:

**IG Example 3: Unbundling a deposit component of a reinsurance contract**

*Application of requirements: case 1 – no claims*

...

If the reinsurer is required, or elects, to unbundle the contract, it does so as follows. Each payment by the cedant has two components: a loan advance (deposit component) and a payment for insurance cover (insurance component). Applying IFRS 9 to the deposit component, the reinsurer is required to measure it initially at fair value. Fair value could be determined by discounting the future cash flows from the deposit component. Assume that an appropriate discount rate is 10 per cent and that the insurance cover is equal in each year, so that the payment for insurance cover is the same in every year. Each payment of CU10 by the cedant is then made up of a loan advance of CU6.7 and an insurance premium of CU3.3.

...

*Incremental cash flows because of the claim in year 1*

...

The incremental cash flows have a present value, in year 1, of CU35 (assuming a discount rate of 10 per cent is appropriate). Applying paragraphs 10–12 of the IFRS, the cedant unbundles the contract and applies IFRS 9 to this deposit component (unless the cedant already recognises its contractual obligation to repay the deposit component to the reinsurer). If this were not done, the cedant might recognise the CU150 received in year 1 as income, and the incremental payments in years 2–5 as expenses. However, in substance, the reinsurer has paid a claim of CU35 and made a loan of CU115 (CU150 less CU35) that will be repaid in instalments.

...

IGA7 IG Example 4 is amended to read as follows:

#### **IG Example 4: Shadow accounting**

##### *Background*

...

At the inception of a contract, insurer A has DAC of CU20 relating to that contract and the present value, at inception, of EGP is CU100. In other words, DAC is 20 per cent of EGP at inception. Thus, for each CU1 of realised gross profits, insurer A amortises DAC by CU0.20. For example, if insurer A sells assets and recognises a gain of CU10, insurer A amortises DAC by CU2 (20 per cent of CU10).

Before adopting IFRSs for the first time in 20X5, insurer A measured financial assets on a cost basis. (Therefore, EGP under those national requirements considers only realised gains and losses.) However, under IFRSs, it classifies its financial assets as measured at fair value through profit or loss.

In 20X5, insurer A recognises unrealised gains of CU10 on the assets backing the contract and in 20X6 it sells the assets for an amount equal to their fair value at the end of 20X5.

##### *Application of paragraph 30 of the IFRS*

Paragraph 30 of the IFRS permits, but does not require, insurer A to adopt shadow accounting. If insurer A adopts shadow accounting, it amortises DAC in 20X5 by an additional CU2 (20 per cent of CU10) as a result of the change in the fair value of the assets. Insurer A recognises the additional amortisation of CU2 in profit or loss.

When insurer A sells the assets in 20X6, it makes no further adjustment to DAC.

In summary, shadow accounting treats an unrealised gain in the same way as a realised gain. If insurer A does not adopt shadow accounting, unrealised gains on assets do not affect the amortisation of DAC.

IGA8 Paragraph IG65A is amended to read as follows:

IG65A The issuer of a financial guarantee contract provides disclosures complying with IFRS 7 if it applies IFRS 9 in recognising and measuring the contract. If the issuer elects, when permitted by paragraph 4(d) of IFRS 4, to apply IFRS 4 in recognising and

measuring the contract, it provides disclosures complying with IFRS 4. The main implications are as follows:

- (a) IFRS 4 requires disclosure about actual claims compared with previous estimates (claims development), but does not require disclosure of the fair value of the contract.
- (b) IFRS 7 requires disclosure of the fair value of the contract, but does not require disclosure of claims development.

## **IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations***

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IGA9 The tables in Example 10 are amended to read as follows:

	Carrying amount at the end of the reporting period before classification as held for sale	Carrying amount as remeasured immediately before classification as held for sale
	CU*	CU
Goodwill	1,500	1,500
Property, plant and equipment (carried at revalued amounts)	4,600	4,000
Property, plant and equipment (carried at cost)	5,700	5,700
Inventory	2,400	2,200
Investments in equity instruments	1,800	1,500
<b>Total</b>	<b>16,000</b>	<b>14,900</b>

\* In this guidance, monetary amounts are denominated in 'currency units (CU)'.  
...

The impairment loss is allocated to non-current assets to which the measurement requirements of the IFRS are applicable. Therefore, no impairment loss is allocated to inventory and investments in equity instruments. The loss is allocated to the other assets in the order of allocation set out in paragraphs 104 and 122 of IAS 36 (as revised in 2004).  
...

	Carrying amount as remeasured immediately before classification as held for sale	Allocated impairment loss	Carrying amount after allocation of impairment loss
	CU	CU	CU
Goodwill	1,500	(1,500)	0
Property, plant and equipment (carried at revalued amounts)	4,000	(165)	3,835
Property, plant and equipment (carried at cost)	5,700	(235)	5,465
Inventory	2,200	–	2,200
Investments in equity instruments	1,500	–	1,500
<b>Total</b>	<b>14,900</b>	<b>(1,900)</b>	<b>13,000</b>

IGA10 The table in Example 12 is amended to read as follows:

	Carrying amount after classification as held for sale	
	Disposal group I: CU	Disposal group II: CU
Property, plant and equipment	4,900	1,700
Investments in equity instruments	1,400 <sup>(a)</sup>	–
Liabilities	(2,400)	(900)
<b>Net carrying amount of disposal group</b>	<b>3,900</b>	<b>800</b>
(a) An amount of CU400 relating to these assets has been recognised in other comprehensive income and accumulated in equity.		

## IFRS 7 *Financial Instruments: Disclosures*

IGA11 The heading above paragraph IG7 and paragraphs IG7–IG11 are deleted.

IGA12 The table in paragraph IG13A is amended to read as follows:

<b>Assets measured at fair value</b>				
<b>Fair value measurement at end of the reporting period using:</b>				
<b>Description</b>	<b>31 Dec 20X2</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
		<b>CU million</b>	<b>CU million</b>	<b>CU million</b>
Financial assets at fair value through profit or loss				
Trading securities	100	40	55	5
Trading derivatives	39	17	20	2
Financial assets at fair value through other comprehensive income				
Equity investments	75	30	40	5
<b>Total</b>	<b>214</b>	<b>87</b>	<b>115</b>	<b>12</b>

(Note: For liabilities, a similar table might be presented.)

IGA13 The table in paragraph IG13B is amended to read as follows:

<b>Assets measured at fair value based on Level 3</b>				
<b>Fair value measurement at the end of the reporting period</b>				
	<b>Financial assets at fair value</b>			<b>Total</b>
	Trading securities	Trading derivatives	Equity investments	
	CU million	CU million	CU million	CU million
Opening balance	6	5	3	14
Total gains or losses				
in profit or loss	(2)	(2)	—	(4)
in other comprehensive income	—	—	1	1
Purchases	1	2	1	4
Issues	—	—	—	—
Settlements	—	(1)	—	(1)

*continued...*



...continued				
Transfers out of Level 3	—	(2)	—	(2)
Closing balance	5	2	5	12
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	(1)	(1)	—	(2)
Gains or losses included in profit or loss for the period (above) are presented in trading income and in other income as follows:				
			Trading Income	
Total gains or losses included in profit or loss for the period			(4)	
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period			(2)	
(Note: For liabilities, a similar table might be presented.)				

IGA14 Paragraph IG14 and the illustrative disclosure following paragraph IG14 are amended to read as follows:

IG14 The fair value at initial recognition of financial instruments that are not traded in active markets is determined in accordance with paragraph B5.4.8 of IFRS 9. However, when, after initial recognition, an entity will use a valuation technique that incorporates data not obtained from observable markets, there may be a difference between the transaction price at initial recognition and the amount determined at initial recognition using that valuation technique. In these circumstances, the difference will be recognised in profit or loss in subsequent periods in accordance with IFRS 9 and the entity's accounting policy. Such recognition reflects changes in factors (including time) that market participants would consider in setting a price (see paragraph B5.4.9 of IFRS 9). Paragraph 28 requires disclosures in these circumstances. An entity might disclose the following to comply with paragraph 28:

...

*Accounting policies*

The entity uses the following valuation technique to determine the fair value of financial instruments that are not traded in an active market: [description of technique, not included in this example]. Differences may arise between the fair value at initial recognition (which, in accordance with IFRS 9, is generally the transaction price) and the amount determined at initial recognition using the valuation technique. Any such differences are [description of the entity's accounting policy].

*In the notes to the financial statements*

As discussed in note X, the entity uses [name of valuation technique] to measure the fair value of the following financial instruments that are not traded in an active market. However, in accordance with IFRS 9, the fair value of an instrument at inception is generally the transaction price. If the transaction price differs from the amount determined at inception using the valuation technique, that difference is [description of the entity's accounting policy].

IGA15 Paragraph IG36 is amended to read as follows:

IG36 The following example illustrates the application of the disclosure requirement in paragraph 40(a):

**Interest rate risk**

At 31 December 20X2, if interest rates at that date had been 10 basis points lower with all other variables held constant, post-tax profit for the year would have been CU1.7 million (20X1—CU2.4 million) higher, arising mainly as a result of lower interest expense on variable borrowings. If interest rates had been 10 basis points higher, with all other variables held constant, post-tax profit would have been CU1.5 million (20X1—CU2.1 million) lower, arising mainly as a result of higher interest expense on variable borrowings. Profit is more sensitive to interest rate decreases than increases because of borrowings with capped interest rates. The sensitivity is lower in 20X2 than in 20X1 because of a reduction in outstanding borrowings that has occurred as the entity's debt has matured (see note X). [footnote omitted] ...

## IAS 1 *Presentation of Financial Statements*

IGA16 The heading above paragraph IG7 and paragraphs IG7–IG9 are deleted. Paragraph IG2 is amended to read as follows:

IG2 The guidance is in two sections. Paragraphs IG3–IG6 provide examples of the presentation of financial statements. Paragraphs IG7–IG9 have been deleted. Paragraphs IG10 and IG11 provide examples of capital disclosures.

IGA17 In the illustrative financial statements, references to ‘Available-for-sale financial assets’ are replaced by ‘Investments in equity instruments’. In the single statement of comprehensive income the reference to footnote (b) against the deleted line item ‘Available-for-sale financial assets’ is deleted. The heading and table ‘Disclosure of components of other comprehensive income’ are amended to read as follows:

### Part I: Illustrative presentation of financial statements

#### Disclosure of components of other comprehensive income

[footnote omitted]

#### Notes

#### Year ended 31 December 20X7

(in thousands of currency units)

	20X7	20X6
<b>Other comprehensive income:</b>		
Exchange differences on translating foreign operations [footnote omitted]	5,334	10,667
Investments in equity instruments	(24,000)	26,667
Cash flow hedges:		
Gains (losses) arising during the year	(4,667)	(4,000)
Less: Reclassification adjustments for gains (losses) included in profit or loss	3,333	—
Less: Adjustments for amounts transferred to initial carrying amount of hedged items	667	—
	(667)	(4,000)
Gains on property revaluation	933	3,367

*continued...*

<i>...continued</i>		
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates	400	(700)
Other comprehensive income	(18,667)	37,334
Income tax relating to components of other comprehensive income [footnote omitted]	4,667	(9,334)
<b>Other comprehensive income for the year</b>	<b>(14,000)</b>	<b>28,000</b>

IGA18 The second paragraph in footnote (k) to the illustrative financial statements is amended to read as follows:

- (k) The amount included in the translation, investments in equity instruments and cash flow hedge reserves represents other comprehensive income for each component, net of tax and non-controlling interests, eg other comprehensive income related to investments in equity instruments for 20X6 of 16,000 is 26,667, less tax 6,667, less non-controlling interests 4,000.

IGA19 The second paragraph in footnote (l) to the illustrative financial statements is amended to read as follows:

- (l) The amount included in the translation, investments in equity instruments and cash flow hedge reserves represents other comprehensive income for each component, net of tax and non-controlling interests, eg other comprehensive income related to the translation of foreign operations for 20X7 of 3,200 is 5,334, less tax 1,334, less non-controlling interests 800.

## IAS 18 Revenue

IGA20 In the illustrative examples, paragraphs 5 and 14 are amended to read as follows:

5 ...

For a sale and repurchase agreement on an asset other than a financial asset, the terms of the agreement need to be analysed to ascertain whether, in substance, the seller has transferred the

risks and rewards of ownership to the buyer and hence revenue is recognised. When the seller has retained the risks and rewards of ownership, even though legal title has been transferred, the transaction is a financing arrangement and does not give rise to revenue. For a sale and repurchase agreement on a financial asset, IFRS 9 *Financial Instruments* applies.

14 *Financial service fees*

...

- (a) *Fees that are an integral part of the effective interest rate of a financial instrument.*

...

- (i) *Origination fees received by the entity relating to the creation or acquisition of a financial asset other than one that under IFRS 9 is measured at fair value through profit or loss.*

Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument and, together with the related transaction costs [footnote omitted] (as defined in IAS 39), are deferred and recognised as an adjustment to the effective interest rate.

- (ii) *Commitment fees received by the entity to originate a loan when the loan commitment is outside the scope of IFRS 9.*

If it is probable that the entity will enter into a specific lending arrangement and the loan commitment is not within the scope of IFRS 9, the commitment fee received is regarded as compensation for an ongoing involvement with the acquisition of a financial instrument and, together with the related transaction costs (as defined in IAS 39), is deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the entity making the loan, the fee is recognised as revenue on expiry. Loan commitments that are within the scope

of IFRS 9 are accounted for as derivatives and measured at fair value.

- (iii) *Origination fees received on issuing financial liabilities measured at amortised cost.*

These fees are an integral part of generating an involvement with a financial liability. When a financial liability is not classified as at fair value through profit or loss, the origination fees received are included, with the related transaction costs (as defined in IAS 39) incurred, in the initial carrying amount of the financial liability and recognised as an adjustment to the effective interest rate. An entity distinguishes fees and costs that are an integral part of the effective interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services.

- (b) *Fees earned as services are provided.*
  - (i) ...
  - (ii) *Commitment fees to originate a loan when the loan commitment is outside the scope of IFRS 9.*

If it is unlikely that a specific lending arrangement will be entered into and the loan commitment is outside the scope of IFRS 9, the commitment fee is recognised as revenue on a time proportion basis over the commitment period. Loan commitments that are within the scope of IFRS 9 are accounted for as derivatives and measured at fair value.

- (iii) ...

## ***IAS 27 Consolidated and Separate Financial Statements***

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IGA21 Paragraph IG7 is amended to read as follows:

- IG7 IFRS 9 *Financial Instruments* does not apply to interests in subsidiaries, associates and jointly controlled entities that are consolidated, accounted for using the equity method or proportionately consolidated in accordance with IAS 27, IAS 28 and IAS 31 respectively. When instruments containing potential

voting rights in substance currently give access to the economic benefits associated with an ownership interest, and the investment is accounted for in one of the above ways, the instruments are not subject to the requirements of IFRS 9. In all other cases, instruments containing potential voting rights are accounted for in accordance with IFRS 9.

IGA22 A footnote is added to 'IAS 39' after the Table of Concordance as follows:

\* In November 2009 and October 2010 the IASB amended some of the requirements of IAS 39 and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all financial items within the scope of IAS 39. This section refers to matters relevant when IAS 27 was issued.

## **IAS 32 Financial Instruments: Presentation**

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IGA23 Paragraph IE1 is amended to read as follows:

IE1 The following examples [footnote omitted] illustrate the application of paragraphs 15–27 and IFRS 9 to the accounting for contracts on an entity's own equity instruments (other than the financial instruments specified in paragraphs 16A and 16B or paragraphs 16C and 16D).

IGA24 In the example in paragraph IE5, the caption below the first journal entry is amended to read as follows:

*To record the obligation to deliver CU104,000 in one year at its present value of CU100,000 discounted using an appropriate interest rate (see IFRS 9, paragraph B5.1.1).*

## **IAS 37 Provisions, Contingent Liabilities and Contingent Assets**

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IGA25 Example 9 is amended to read as follows:

On 31 December 20X0, Entity A gives a guarantee of certain borrowings of Entity B, whose financial condition at that time is sound. During 20X1, the financial condition of Entity B deteriorates and at 30 June 20X1 Entity B files for protection from its creditors.

This contract meets the definition of an insurance contract in IFRS 4 *Insurance Contracts*, but is within the scope of IFRS 9 *Financial Instruments*, because it also meets the definition of a financial guarantee contract in IFRS 9. If an issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either IFRS 4 or IFRS 9 to such financial guarantee contracts. IFRS 4 permits the issuer to continue its existing accounting policies for insurance contracts if specified minimum requirements are satisfied. IFRS 4 also permits changes in accounting policies that meet specified criteria. The following is an example of an accounting policy that IFRS 4 permits and that also complies with the requirements in IFRS 9 for financial guarantee contracts within the scope of IFRS 9.

## **IAS 39 Financial Instruments: Recognition and Measurement**

IGA26 Section C and Section D are deleted.

IGA27 The following Questions and Answers (Q&A) are deleted:

- Section B Definitions: B.1–B.23, B.28–B.32
- Section E Measurement: E.1, E.3, E.4.9, E.4.10
- Section F Hedged items: F.1.1, F.1.10, F.2.9–F.2.11, F.2.19, F.2.20

IGA28 In the answer to Question A.1, ‘IAS 39’ is amended to ‘IFRS 9’.

IGA29 In the answer to Question A.2, ‘exemption from IAS 39’ is amended to ‘exemption from paragraph 5 of IAS 39’.

IGA30 Question B.26 is amended to read as follows:

**How is amortised cost calculated for financial assets measured at amortised cost in accordance with IFRS 9?**

IGA31 In the answer to Question E.2.1, ‘IAS 39.AG72’ is amended to ‘paragraph B5.4.4 of IFRS 9’.

IGA32 In the answer to Question E.2.2, ‘IAS 39.AG71’ is amended to ‘paragraph B5.4.3 of IFRS 9’.

IGA33 The answer to Question E.4.2 is amended to read as follows:

No. Paragraph 5.1.1 of IFRS 9 requires a financial asset to be initially measured at fair value. For a loan asset, the fair value is the amount of cash lent adjusted for any fees and costs (unless a portion of the amount lent is compensation for other stated or implied rights or privileges).



In addition, paragraph 5.2.2 of IFRS 9 requires an entity to apply the impairment requirements in IAS 39. IAS 39.58 requires that an impairment loss is recognised only if there is objective evidence of impairment as a result of a past event that occurred after initial recognition. Accordingly, it is inconsistent with paragraph 5.1.1 of IFRS 9 and IAS 39.58 to reduce the carrying amount of a loan asset on initial recognition through the recognition of an immediate impairment loss.

IGA34 Question E.4.5 is amended to read as follows:

**A financial institution calculates impairment in the unsecured portion of financial assets measured at amortised cost on the basis of a provision matrix that specifies fixed provision rates for the number of days a financial asset has been classified as non-performing (zero per cent if less than 90 days, 20 per cent if 90–180 days, 50 per cent if 181–365 days and 100 per cent if more than 365 days). Can the results be considered to be appropriate for the purpose of calculating the impairment loss on the financial assets measured at amortised cost under IAS 39.63?**

IGA35 The last sentence of the answer to Question F.1.2 is amended to read as follows:

However, if the foreign currency component of the sales commitment is required to be separated as an embedded derivative under paragraph 4.3.3 and paragraph B4.3.8(d) of IFRS 9, it could be designated as a hedging instrument in a hedge of the exposure to changes in the fair value of the maturity amount of the debt attributable to foreign currency risk.

IGA36 The last sentence of the answer to Question F.1.4 is deleted.

IGA37 The answer to Question F.2.1 is amended to read as follows:

No. Derivative instruments always meet the definition of held for trading and are measured at fair value with gains and losses recognised in profit or loss unless they are designated and effective hedging instruments (IAS 39.9 and IFRS 9 paragraphs 4.1.1–4.1.5, 5.7.1 and 5.7.3). As an exception, IAS 39.AG94 permits the designation of a purchased option as the hedged item in a fair value hedge.

IGA38 The answer to Question F.2.5 is amended to read as follows:

Yes. A derivative instrument that will be settled gross can be designated as the hedging instrument in a cash flow hedge of the variability of the consideration to be paid or received in the future transaction that will occur on gross settlement of the derivative contract itself because there

would be an exposure to variability in the purchase or sale price without the derivative. This applies to all fixed price contracts that are accounted for as derivatives under IFRS 9.

For example, if an entity enters into a fixed price contract to sell a commodity and that contract is accounted for as a derivative under IAS 39 and IFRS 9 (for example, because the entity has a practice of settling such contracts net in cash or of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin), the entity may designate the fixed price contract as a cash flow hedge of the variability of the consideration to be received on the sale of the asset (a future transaction) even though the fixed price contract is the contract under which the asset will be sold. Also, ...

IGA39 Q&A F.2.13 is amended to read as follows:

**Is fair value hedge accounting permitted for exposure to interest rate risk in fixed rate loans that are measured at amortised cost?**

Yes. Under IFRS 9, some fixed rate loans are measured at amortised cost. Banking institutions in many countries hold the bulk of their fixed rate loans to collect their contractual cash flows. Thus, changes in the fair value of such fixed rate loans that are due to changes in market interest rates will not affect profit or loss. IAS 39.86 specifies that a fair value hedge is a hedge of the exposure to changes in fair value that is attributable to a particular risk and that can affect profit or loss. Therefore, IAS 39.86 may appear to preclude fair value hedge accounting for fixed rate loans. However, the entity could sell them and the change in fair values would affect profit or loss. Thus, fair value hedge accounting is permitted for fixed rate loans.

IGA40 The last paragraph of the answer to Question F.2.17 is amended to read as follows:

To illustrate: Entity A acquires a 10 per cent fixed rate government bond with a remaining term to maturity of ten years. Entity A classifies the bond as measured at amortised cost. To hedge itself against fair value exposure on the bond associated with the present value of the interest rate payments until year 5, Entity A acquires a five-year pay-fixed, receive-floating swap. ...

IGA41 In the answer to Question F.5.6, references to 'IAS 39.43' are replaced with 'paragraph 5.1.1 of IFRS 9' and 'IAS 39.55' are replaced with 'paragraph 5.7.1 of IFRS 9'.

IGA42 In the answer to Question F.6.4, 'IAS 39' in the second sentence is amended to 'IFRS 9'.

IGA43 Q&A G.1 is amended to read as follows:

**IFRS 9 requires remeasurement of financial assets and financial liabilities measured at fair value. Unless a financial asset or a financial liability is designated as a cash flow hedging instrument, fair value changes for financial assets and financial liabilities at fair value through profit or loss are recognised in profit or loss, and fair value changes for financial assets designated at fair value through other comprehensive income are recognised in other comprehensive income. What disclosures are required regarding the amounts of the fair value changes during a reporting period?**

IFRS 7.20 requires items of income, expense and gains and losses to be disclosed. This disclosure requirement encompasses items of income, expense and gains and losses that arise on remeasurement to fair value. Therefore, an entity provides disclosures of fair value changes, distinguishing between changes that are recognised in profit or loss and changes that are recognised in other comprehensive income. Further breakdown is provided of changes that relate to:

- (a) financial assets or financial liabilities measured at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are mandatorily measured at fair value in accordance with IFRS 9. For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss;
- (b) financial assets measured at fair value through other comprehensive income; and
- (c) hedging instruments.

In addition, IFRS 7.11A and IFRS 7.11B require an entity to disclose the amount of gain or loss recognised in other comprehensive income for financial assets measured at fair value through other comprehensive income, including any amount transferred within equity.

IFRS 7 neither requires nor prohibits disclosure of components of the change in fair value by the way items are classified for internal purposes. For example, an entity may choose to disclose separately the change in fair value of those derivatives that meet the definition of held for trading in IFRS 9, but the entity classifies as part of risk management activities outside the trading portfolio.

In addition, IFRS 7.8 requires disclosure of the carrying amounts of financial assets or financial liabilities at fair value through profit or loss, showing separately: (i) those designated as such upon initial recognition; (ii) financial assets mandatorily classified as such in accordance with IFRS 9; (iii) financial liabilities that meet the definition of held for trading in IFRS 9; and (iv) disclosures of financial assets measured at fair value through other comprehensive income.

## **IFRIC 12 *Service Concession Arrangements***

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IGA44 Paragraphs IE7 and IE28 are amended to read as follows:

- IE7 IFRS 9 *Financial Instruments* may require the entity to measure the amounts due from the grantor at amortised cost, unless the entity designates those amounts as measured at fair value through profit or loss. If the receivable is measured at amortised cost in accordance with IFRS 9, it is measured initially at fair value and subsequently at amortised cost, ie the amount initially recognised plus the cumulative interest on that amount calculated using the effective interest method minus repayments.
- IE28 IFRS 9 *Financial Instruments* may require the entity to measure the amount due from or at the direction of the grantor in exchange for the construction services at amortised cost. If the receivable is measured at amortised cost in accordance with IFRS 9, it is measured initially at fair value and subsequently at amortised cost, ie the amount initially recognised plus the cumulative interest on that amount minus repayments.