

International Financial Reporting Standard

Financial Instruments

July 2014

BASES FOR CONCLUSIONS – AMENDMENTS

[IFRS 1, 2, 3, 4, 5, 7, 9 (Nov 2009), 9 (Oct 2010), 10, 12 & 13, IAS 1, 17, 19, 20, 23, 27, 28, 32, 36, 39, 40 & 41, IFRIC 2, 4, 5, 10, 12, 16, 17 & 19 and SIC 7 & 27]

[Related to AASB 2014-7]

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Appendix B

Amendments to the Basis for Conclusions on other Standards

This appendix contains amendments to the Basis for Conclusions on other Standards that are necessary in order to ensure consistency with IFRS 9 and the related amendments to other Standards. These amendments incorporate with additions the amendments issued with IFRS 9 in 2009, 2010 and 2013. Consequently, if an entity has applied a previous version of IFRS 9, the amendments in this appendix replace the amendments that were issued with that previous version.

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

- BCA1 The reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' in paragraph BC17(a), and the first reference to 'IAS 39' in paragraphs BC20, BC58A, BC63A, BC74, BC81, BC89 and BC89A are footnoted as follows:
- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.
- BCA2 The first reference to 'IAS 39' in paragraph BC65 is footnoted as follows:
- * The Board amended the requirements in IAS 39 to identify and separately account for embedded derivatives and relocated them to IFRS 9 *Financial Instruments*. This Basis for Conclusions has not been updated for changes in requirements since IFRIC 9 *Reassessment of Embedded Derivatives* was issued in March 2006.
- BCA3 The term 'available for sale' in paragraph BC63A, the term 'available-for-sale financial assets' in paragraph BC74(b) and the heading above paragraph BC81 are footnoted as follows:
- * IFRS 9 *Financial Instruments* eliminated the category of available-for-sale financial assets.
- BCA4 The heading above paragraph BC75 is footnoted as follows:
- * IFRS 9 *Financial Instruments* replaced the hedge accounting requirements in IAS 39.
- BCA5 Paragraph BC80F is added:
- BC80F In November 2013 the Board amended the examples in the guidance on hedge accounting so that they conformed to IFRS 9, which replaced the hedge accounting requirements in IAS 39.
- BCA6 The reference to 'date of transition to IFRSs' in paragraph BC83A is footnoted as follows:
- * IFRS 9 *Financial Instruments* replaced IAS 39. Paragraphs AG76 and AG76A of IAS 39 were relocated to IFRS 9 as paragraphs B5.4.8 and B5.4.9. However, in May 2011, IFRS 13 deleted paragraphs B5.4.8 and B5.4.9 of IFRS 9. In 2014 the requirements for amortised cost measurement and impairment were added to IFRS 9 as Sections 5.4 and 5.5.

Paragraphs B5.4.8 and B5.4.9 of IFRS 9 now contains requirements related to amortised cost measurement.

IFRS 2 *Share-based Payment*

BCA7 The reference to 'IAS 39' in the heading above paragraph BC25 is footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. Paragraphs BC25–BC28 refer to matters relevant when IFRS 2 was issued.

IFRS 3 *Business Combinations*

BCA8 The reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' in paragraph BC185 and the first reference to 'IAS 39' in paragraphs BC246, BC256, BC354, BC360D, BC360I, BC434A and BC437(c) are footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

BCA9 The reference to 'IAS 39' in paragraph BC185 is footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced the hedge accounting requirements in IAS 39.

BCA10 The reference to 'IAS 39' in paragraph BC244 is footnoted as follows:

- * IFRS 9 *Financial Instruments* relocated to IFRS 9 the requirements on the accounting for financial guarantees and commitments to provide loans at below-market interest rates.

BCA11 The first reference to 'available-for-sale securities' in paragraph BC389 is footnoted as follows:

- * IFRS 9 *Financial Instruments* eliminated the category of available-for-sale financial assets.

IFRS 4 *Insurance Contracts*

BCA12 The reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' in paragraph BC11(a), the first reference to 'IAS 39' in paragraphs BC21, BC22(c), BC28(b), BC40, BC55, BC62, BC73(d), BC82, BC107, BC117, BC146 and BC158 and the heading 'Issues related to IAS 39' above paragraph BC166 are footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

BCA13 The reference to 'IAS 39' in paragraph BC47 is footnoted as follows:

- * The Board amended the requirements in IAS 39 to identify and separately account for embedded derivatives and relocated them to IFRS 9 *Financial Instruments*. This Basis for Conclusions has not been

updated for changes in requirements since IFRIC 9 *Reassessment of Embedded Derivatives* was issued in March 2006.

BCA14 The term ‘available for sale’ in paragraph BC145(b) and the heading ‘Issues related to IAS 39’ above paragraph BC166 are footnoted as follows:

- * IFRS 9 *Financial Instruments* eliminated the category of available-for-sale financial assets.

BCA15 In the Dissenting Opinions, the footnotes to the headings above paragraphs DO7, DO9 and DO18 are replaced with:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

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

BCA16 The reference to ‘IAS 39 *Financial Instruments: Recognition and Measurement*’ in paragraph BC8(b) and the reference to ‘IAS 39’ in paragraphs BC13(a), BC54(a) and BC81 are footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. This paragraph refers to matters relevant when IFRS 5 was issued.

BCA17 The term ‘held-for-trading financial asset’ in paragraph BC54(b) is footnoted as follows:

- * IFRS 9 *Financial Instruments* eliminated the category of held-for-trading financial assets. This paragraph refers to matters relevant when IFRS 5 was issued.

BCA18 The term ‘available-for-sale assets’ in paragraph BC58 is footnoted as follows:

- * IFRS 9 *Financial Instruments* eliminated the category of available-for-sale financial assets. This paragraph refers to matters relevant when IFRS 5 was issued.

IFRS 7 *Financial Instruments: Disclosures*

BCA19 In the rubric below the title, a third paragraph is added:

The requirements of IAS 39 relating to classification and measurement of items within the scope of IAS 39 were relocated to IFRS 9 Financial Instruments, and IFRS 7 was amended accordingly. The text of this Basis for Conclusions has been amended for consistency with those changes.

BCA20 Paragraphs BC14–BC16 are amended to read as follows:

BC14 Paragraph 8 requires entities to disclose financial assets and financial liabilities by the measurement categories in IFRS 9 *Financial Instruments*. The Board concluded that disclosures for each measurement category would assist users in understanding the extent to which accounting policies affect the amounts at which financial assets and financial liabilities are recognised.

BC15 The Board also concluded that separate disclosure of the carrying amounts of financial assets and financial liabilities that are designated upon initial recognition as financial assets and financial liabilities at fair value through profit or loss and those mandatorily measured at fair value is useful because such designation is at the discretion of the entity.

Financial assets or financial liabilities at fair value through profit or loss (paragraphs 9–11, B4 and B5)

BC16 IFRS 9 permits entities to designate a non-derivative financial liability as at fair value through profit or loss, if specified conditions are met. If entities do so, they are required to provide the disclosures in paragraphs 10 and 11. The Board's reasons for these disclosures are set out in the Basis for Conclusions on IFRS 9, paragraphs BCZ5.29–BCZ5.34.

BCA21 The heading above paragraph BC23 is amended to read as follows and paragraph BC23B is added:

Reclassification (paragraphs 12B–12D)

BC23B The Board issued the requirements relating to the reclassification of financial assets in IFRS 9 *Financial Instruments* and revised accordingly the disclosure requirements relating to the reclassification of financial assets.

BCA22 Paragraphs BC33 and BC34 are amended to read as follows:

BC33 Paragraph 20(a) requires disclosure of income statement gains and losses by the measurement classifications in IFRS 9 (which complement the balance sheet disclosure requirement described in paragraph BC14). The Board concluded that the disclosure is needed for users to understand the financial performance of an entity's financial instruments, given the different measurement bases in IFRS 9.

BC34 Some entities include interest and dividend income in gains and losses on financial assets and financial liabilities measured at fair value through profit or loss and others do not. To assist users in comparing income arising from financial instruments across different entities, the Board decided that an entity should disclose how the income statement amounts are determined. For example, an entity should disclose whether net gains and losses on financial assets or financial liabilities measured at fair value through profit or loss include interest and dividend income (see Appendix B, paragraph B5(e)).

BCA23 Headings and paragraphs BC35A–BC35SS are added:

Other disclosures—hedge accounting

BC35A The Board divided its project to replace IAS 39 into three phases. As the Board completed each phase, it deleted the relevant portions in IAS 39 and replaced it with chapters in IFRS 9. The third phase of the project to replace IAS 39 related to hedge accounting. As a consequence of the decisions the Board made when it replaced the hedge accounting

guidance in IAS 39, the Board also considered changes to the disclosure requirements related to hedge accounting contained in IFRS 7.

BC35B During its deliberations, the Board engaged in outreach activities with users of financial statements. This outreach included soliciting views on presentation and disclosures. The Board used the responses received from those outreach activities to develop the proposed hedge accounting disclosures.

BC35C The Board was told that many users did not find the hedge accounting disclosures in financial statements helpful. Many also think that the hedge accounting disclosures that were originally in IFRS 7 did not provide transparency on an entity's hedging activities.

BC35D To provide relevant information that enhances the transparency on an entity's hedging activities, the Board proposes hedge accounting disclosures that meet particular objectives. Clear disclosure objectives allow an entity to apply its judgement when it provides information that is useful and relevant to users of financial statements.

BC35E The following sub-sections set out the Board's considerations regarding the proposed hedge accounting disclosures.

General considerations

Scope of the hedge accounting disclosures

BC35F An entity might enter into a transaction to manage an exposure to a particular risk that might not qualify for hedge accounting (for various reasons), for example, an item that is not eligible to be designated as a hedged item or hedging instrument. Information on such transactions might enable users to understand why an entity has entered into a transaction and how it manages the particular risk, even though those transactions do not qualify for hedge accounting.

BC35G However, the Board thought that mandating such disclosures would require it to determine the part of an entity's risk management that was relevant for the purpose of this disclosure and then define that part to make the disclosure requirement operational. The Board did not believe that this would be feasible as part of its hedge accounting project as it requires a much wider scope because the disclosures would not depend on the accounting treatment.

BC35H Furthermore, users of financial statements can often obtain information on an entity's hedging activities from information in management reports and sources outside the financial reporting context. That often gives a reasonable overview of why hedge accounting might be difficult to achieve. Consequently, the Board decided not to propose in its 2010 Exposure Draft *Hedge Accounting* (the '2010 Hedge Accounting Exposure Draft') disclosures about hedging when hedge accounting does not apply.

- BC35I Most respondents to the 2010 Hedge Accounting Exposure Draft agreed with the Board's proposed scope for hedge accounting disclosures (ie to provide information about risk exposures that an entity hedges and for which hedge accounting is applied). However, some did raise concerns about the potential lack of information that will be available to users of financial statements about those risk exposures an entity hedges but for which hedge accounting is not applied.
- BC35J The Board noted that IFRS 7 requires entities to provide qualitative and quantitative disclosure about the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period and how those risks are being managed. The Board believes that, as part of these disclosures, entities would provide information for users of financial statements to understand how it manages risk exposures for which hedge accounting is not applied.
- BC35K Consequently, the Board decided to retain the scope of the hedge accounting disclosures as proposed in the 2010 Hedge Accounting Exposure Draft, that is, to provide information to users of financial statements on exposures that an entity hedges and for which hedge accounting is applied.

Location of disclosures

- BC35L The Board decided that all hedge accounting disclosures should be presented in one location within an entity's financial statements. However, if such information is already presented elsewhere the Board decided that, in order to avoid duplication, an entity should be allowed to incorporate that information by cross-reference, which is similar to the approach used by IFRS 7 for some disclosures that can be incorporated by reference. The Board thinks that the information will be more transparent and easier to understand if it is presented in one location within the entity's financial statements.

Disclosures by risk category

- BC35M The Board noted that recognition and measurement requirements allow for only a partial reflection of the economic hedging activities in the financial statements, which results in a limitation of an entity's reporting of its hedging activities. Hence, the Board considered that the transparency of an entity's hedging activities could be enhanced by an approach that considers:
- (a) information that provides a clear picture of those risk management activities of an entity that are captured by hedge accounting (this information is not necessarily provided in the primary financial statements); and
 - (b) information that is included in the primary financial statements.
- BC35N To provide information that is useful to users of financial statements, there should be a clear link between the hedge accounting information that is outside the primary financial statements and the hedge accounting within those. To provide such a link, the Board decided that

an entity should provide hedge accounting disclosures by risk category. Consequently, an entity should disclose by risk category:

- (a) information that is not included in the primary financial statements (see paragraphs BC35P–BC35BB); and
- (b) information that is included in the primary financial statements (see paragraphs BC35CC–BC35SS).

BC35O The Board decided not to prescribe the risk categories by which the disclosures need to be disaggregated. In the Board's view an entity should apply judgement and categorise risks on the basis of how it manages its risks through hedging. For example, an entity manages its floating interest rate risk using interest rate swaps (to change it to a fixed interest rate) for some hedging relationships (cash flow hedges), while it also uses cross-currency interest rate swaps to manage both the floating interest rate and foreign exchange risk of other hedging relationships (cash flow hedges). Consequently, the entity would have one risk category for floating interest rate risk and another risk category for foreign exchange risk combined with floating interest rate risk. However, an entity should apply its risk categories consistently throughout all the proposed hedge accounting disclosures.

The risk management strategy

BC35P Users of financial statements need to understand how an entity's risk management strategy is applied. Understanding an entity's risk management strategy for each risk helps users to understand the accounting information disclosed.

BC35Q Consequently, in its 2010 Hedge Accounting Exposure Draft, the Board proposed that an entity should provide an explanation of its risk management strategy for each category of risk.

BC35R Most respondents to the 2010 Hedge Accounting Exposure Draft agreed with this proposal. However, some raised concerns that the 2010 Hedge Accounting Exposure Draft was not clear enough on how much detail should be provided by entities to comply with the disclosure requirement.

BC35S The Board noted that an entity will identify and ultimately describe their risk management strategies based on how it manages risk. Because entities manage risk in different ways, the Board did not think that users of financial statements would necessarily understand an entity's risk management strategy if it required a specific list of information to be disclosed. Instead, the Board decided to add additional guidance on the type of information that should be included in a risk management description.

The amount, timing and uncertainty of future cash flows

BC35T The Board decided that, in order to meet the objectives of hedge accounting disclosures, an entity would have to provide sufficient quantitative information to help users of financial statements

understand how its risk management strategy for each particular risk affects the amount, timing and uncertainty of future cash flows. In this context, risk exposure refers only to risks that the entity has decided to hedge and for which hedge accounting is applied.

BC35U Consequently, in its 2010 Hedge Accounting Exposure Draft, the Board proposed that an entity should provide:

- (a) quantitative information on the risk exposure that the entity manages and the extent to which the entity hedges that exposure; and
- (b) a breakdown of that information for each future period that a hedging relationship (which exists at the reporting date) covers.

BC35V The Board also proposed that an entity should disclose information about the sources of hedge ineffectiveness of hedging relationships for each particular risk category. In the Board's view this would assist users in identifying the reasons for hedge ineffectiveness that is recognised in profit or loss. It would also help users to determine how hedging relationships will affect profit or loss.

BC35W Most respondents disagreed with the Board's proposal to require entities to disclose information on the risk exposure and the hedged rate. They commented that this would result in the disclosure of commercially sensitive information (ie the risk exposure and the hedged rate). They believed that those who do not elect to apply hedge accounting would potentially have an unfair advantage because although they do not have to disclose anything, they could nonetheless gain insight into their competitor's hedge positions. Commercial sensitivity was also of concern to those entities whose competitors are not listed companies or who do not report under IFRSs.

BC35X The Board noted that the proposal in the 2010 Hedge Accounting Exposure Draft focused on the hedged risk (ie the hedged item). Consequently, it would result in disclosures about forward looking information and the rates at which future transactions are hedged. The Board acknowledged that this would potentially provide competitors with insight into an entity's costing structure. Consequently, the Board decided not to require information to be disclosed about the total risk exposure because of the potential forward looking nature of this information. The Board also decided to change the focus of the proposed disclosure from the hedged item to the hedging instrument. In other words, the disclosure would require information on some of the terms and conditions of the hedging instrument to be provided. The Board believes that this information will still be relevant and useful for users of financial statements in inferring the exposure that an entity is exposed to and what the effects will be on future cash flows as a result of how the entity manages the particular risk.

BC35Y The Board also discussed situations in which an entity uses a 'dynamic' hedging process, ie a situation in which entities assess their overall exposure to a particular risk and then designate hedging relationships

for constantly evolving exposures that require frequent discontinuations and restarts of hedging relationships. This is particularly the case for hedges of open portfolios. The Board noted that, because the general hedge accounting model allows hedge accounting for hedges of groups and net positions in relation to closed portfolios, entities need to use a 'dynamic' hedging process for an open portfolio. This means that entities designate hedging relationships for an open portfolio as if it were a closed portfolio for a short period and at the end of that period look at the open portfolio as the next closed portfolio for another short period. The dynamic nature of this process involves frequent discontinuations and restarts of hedging relationships.

BC35Z The Board considered that, in those circumstances, providing information about the terms and conditions of the hedging instruments would not be useful given that the hedging instruments are part of a particular hedging relationship for only a short period at a time and are then designated into a new hedging relationship or left undesignated. In contrast, the disclosure requirement related to the terms and conditions of the hedging instrument was designed to provide information for situations in which an entity hedges a risk that remains broadly the same over the entire hedged period. Consequently, the Board decided to exempt entities from the requirement to disclose the terms and conditions of the hedging instruments in situations in which they use a 'dynamic' hedging process that involves frequent discontinuations and restarts of hedging relationships.

BC35AA The Board was of the view that it was more important for users to understand why entities use hedge accounting in the context of 'dynamic' hedging processes than to provide users with information about the terms and conditions of a hedging instrument that is part of a hedging relationship for only a short period at a time (and the designation of which changes frequently). Consequently, the Board decided that, in such circumstances, an entity should expand its discussion of the risk management strategy by providing the following information about how the entity uses hedge accounting to reflect its risk management strategy:

- (a) information about what the ultimate risk management strategy is (for the dynamic hedging process);
- (b) a description of how it reflects its risk management strategy by using hedge accounting and designating the particular hedging relationships; and
- (c) an indication of how frequently the hedging relationships are discontinued and restarted as part of the dynamic hedging process.

BC35BB The Board also noted that, because the designated hedging relationships change frequently, the specific relationships at the reporting date might not be representative of the normal volumes during the period. The Board therefore decided to require entities to

disclose when the volumes at the reporting date are unrepresentative of normal volumes during the period (similar to the disclosure requirement on sensitivity analyses for market risk in paragraph 42).

BC35CC One function of hedge accounting is to mitigate the recognition and measurement anomalies between the accounting for hedging instruments and the accounting for hedged items. Hedge accounting disclosures should therefore increase the transparency of how an entity has mitigated these recognition and measurement anomalies. Doing so will help users identify how hedge accounting has affected the entity's statement of profit or loss and other comprehensive income and statement of financial position.

The effects of hedge accounting on financial position and performance

BC35DD To provide information on the effects of hedge accounting on the statement of profit or loss and other comprehensive income and the statement of financial position, the Board proposed disclosures that should be presented in a tabular format that separates the information by risk category and by type of hedge. Providing disclosures in a tabular format allows users to identify clearly the relevant numbers and their effects on the entity's statement of profit or loss and other comprehensive income and statement of financial position.

BC35EE During the Board's initial outreach, users said that they do not analyse an entity's hedging activities by type of hedging relationship (for example, a cash flow hedge or a fair value hedge). They said that it is more important to understand the risks that the entity manages and the results after hedging. However, to provide information effectively on the effects of hedge accounting on the statement of profit or loss and other comprehensive income and the statement of financial position, the information should reflect the accounting that was applied (for example, cash flow hedge accounting or fair value hedge accounting). The Board believed that if the proposed table is prepared by risk category and by type of hedge, the table would provide sufficient links between the accounting information and the risk management information.

BC35FF The Board did not propose prescribing levels of aggregation or disaggregation for the information that should be disclosed in a tabular format. An entity should apply judgement when it determines the appropriate level of aggregation or disaggregation. However, the Board proposed that an entity should consider other disclosure requirements in IFRS 7 when it considers the appropriate level of aggregation or disaggregation. For example, users should be able to take amounts that are disclosed and measured at fair value and make comparisons between the fair value disclosures and the proposed hedge accounting disclosures.

BC35GG Cash flow hedge accounting requires an entity to defer gains or losses on the hedging instrument in other comprehensive income. The deferred amounts are reflected in the statement of changes in equity in

the cash flow hedge reserve. IAS 1 requires an entity to prepare a reconciliation for each component of equity between the carrying amount at the beginning and at the end of the period. In conformity with its objectives for hedge accounting disclosures, the Board proposed that the reconciliation required by IAS 1 should have the same level of detail as the information that identifies the effects of hedge accounting on the statement of profit or loss and other comprehensive income. The Board also proposed that the reconciliation should be by type of risk. The Board considered that such a disclosure would allow users of financial statements to evaluate the effects of hedge accounting on equity and the statement of profit or loss and other comprehensive income.

BC35HH Many respondents to the 2010 Hedge Accounting Exposure Draft agreed with the Board's proposal to explain the effects of hedge accounting disclosures using a tabular disclosure format. However, some respondents raised concerns that the proposal seems too prescriptive. Some also commented that they did not think that the tabular disclosure, as proposed, provided a clear enough link between hedged items and hedging instruments for the purpose of explaining hedge ineffectiveness. A few respondents also commented that the disclosures did not allow them to differentiate between financial instruments that have been designated as hedging instruments and those that have not. These respondents believe that it is helpful to understand the purpose and effect of financial instruments if their designation is made clear through disclosures.

BC35II The Board thinks that providing a tabular disclosure format separated by type of hedge (ie fair value hedges or cash flow hedge), risk category and by risk management strategy provides a sufficient link between the accounting information and the risk management information.

BC35JJ The Board did not propose any more specific format other than requiring information to be disclosed in a tabular format. The Board thought that entities should have the freedom to present the disclosures that require a tabular format however they feel is best in order to provide users with the most useful information.

BC35KK While the 2010 Hedge Accounting Exposure Draft was open for public comment, the Board issued IFRS 13 *Fair Value Measurement*. As a consequence of issuing that IFRS, the Board moved the fair value disclosures in IFRS 7 to IFRS 13. To improve the usefulness of the hedge accounting disclosures, the Board decided to require entities to use the same level of aggregation or disaggregation it used for other IFRS 7 or IFRS 13 disclosures related to the same underlying information.

BC35LL In its redeliberations of the 2010 Hedge Accounting Exposure Draft, the Board also considered a disclosure that would allow understanding how the hedge ineffectiveness that is recognised in the statement of comprehensive income relates to the changes in the values of the hedging instruments and the hedged items. The Board decided to require disclosure of the change in fair value of the hedging instruments

and the change in the value of the hedged items on the basis that is used to calculate the hedge ineffectiveness that is recognised in the statement of comprehensive income. Those are the changes in value during the period (after taking into account the effect of the 'lower of' test for cash flow hedges and hedges of a net investment in a foreign operation). This means that the difference between the amount included in the table for hedged items and the amount included in the table for hedging instruments equals the hedge ineffectiveness recognised in the statement of comprehensive income.

BC35MM The Board also did not think that it was necessary to provide a specific disclosure that indicates which financial instruments have been designated as hedging instruments and which have not. The Board thought that such a disclosure would provide potentially misleading information to users of financial statements. This is because users of financial statements might think that all financial instruments not designated as hedging instruments might be held for speculative purposes. This is not necessarily the case. Entities might hold financial instruments for hedging purposes but may decide not to elect hedge accounting. In addition to this, the Board thought that, because entities need to provide the information that requires a tabular format based on the same level of aggregation or disaggregation as in IFRS 13, users of financial statements should be able to identify the financial instruments not designated as hedging instruments by simply comparing the disclosures with each other. In addition, users should be able to understand how an entity manages the risks it is exposed to as a result of financial instruments using the disclosure requirements in IFRS 7 that are not related to the hedge accounting disclosures.

Time value of options accumulated through other comprehensive income

BC35NN The Board proposed accounting requirements that involve other comprehensive income for the time value of an option when an entity elects to separate the time value of the option and designate (as the hedging instrument) only its intrinsic value. Consequently, the Board also considered disclosures regarding the amounts that would be recognised in other comprehensive income under these proposals.

BC35OO The Board noted that IAS 1 requires an entity to prepare a reconciliation for each component of equity between the carrying amount at the beginning and at the end of the period. Consequently, as a result of IAS 1, an entity would disclose the amounts in relation to the time value of options that would be accumulated in other comprehensive income and the movements in that balance.

BC35PP However, in its 2010 Hedge Accounting Exposure Draft, the Board proposed that an entity should differentiate between transaction related hedged items and time-period related hedged items when providing the reconciliation of the accumulated other comprehensive income. This disaggregation would provide additional information about what

cumulative amount in other comprehensive income would become an expense item over time and what amount would be transferred when a particular transaction occurs.

BC35QQ Most respondents agreed with the Board's proposal and consequently, the Board decided to retain the proposal from its 2010 Hedge Accounting Exposure Draft. However, as a consequence of the Board's decision to also allow an alternative accounting treatment for forward elements and foreign currency basis spreads, the Board also required that for the purpose of the IAS 1, amounts recognised in accumulated other comprehensive income that relate to forward elements and foreign currency basis spreads should be reconciled separately from amounts in relation to time value of options.

Hedging credit risk using credit derivatives

BC35RR For situations in which entities hedge credit risk using credit derivatives the Board decided to mitigate accounting mismatches in relation to credit derivatives accounted for at fair value through profit or loss by also using fair value through profit or loss accounting for the hedged credit exposure. Consequently, the Board also considered disclosures to provide transparency when entities apply that accounting.

BC35SS The Board considered that the following information would be useful for understanding the accounting in such situations:

- (a) a reconciliation of amounts at the beginning and end of the period for the nominal amount and for the fair value of the credit derivatives;
- (b) the gain or loss recognised in profit or loss as a result of changing the accounting for a credit exposure to fair value through profit or loss; and
- (c) when an entity discontinues fair value through profit or loss accounting for credit exposures, the fair value that becomes the new deemed cost or amortisable amount (for loan commitments) and the related nominal or principal amount.

BCA24 Paragraphs BC39 and BC39B–BC39E are amended to read as follows:

BC39 Paragraph 28 requires disclosure about the difference that arises if the transaction price differs from the fair value of a financial instrument that is determined in accordance with paragraph B5.4.8 of IFRS 9.⁵⁸ Those disclosures relate to matters addressed in the December 2004 amendment to IAS 39 *Transition and Initial Recognition of Financial Assets and Financial Liabilities*. That amendment does not specify how entities should account for those initial differences in subsequent periods. The disclosures required by paragraph 28 inform users about the amount of gain or loss that will be recognised in profit or loss in future periods. The

⁵⁸ IFRS 13, issued in May 2011, contains the requirements for measuring fair value. As a consequence of issuing that IFRS, paragraph B5.4.8 of IFRS 9 was deleted. However, in 2014 the requirements for amortised cost measurement and impairment were added to IFRS 9 as Sections 5.4 and 5.5. Paragraph B5.4.8 of IFRS 9 now contains requirements related to amortised cost measurement.

Board noted that the information required to provide these disclosures would be readily available to the entities affected.

BC39B Because its own fair value measurement project was not yet completed, the Board decided not to propose a fair value hierarchy for measurement but only for disclosures. The fair value hierarchy for disclosures is the same as that in SFAS 157 but uses IFRS language pending completion of the fair value measurement project. Although the implicit fair value hierarchy for measurement in IFRS 9 is different from the fair value hierarchy in SFAS 157, the Board recognised the importance of using a three-level hierarchy for disclosures that is the same as that in SFAS 157.

BC39C The Board noted the following three-level measurement hierarchy implicit in IFRS 9:

- (a) financial instruments quoted in an active market;
- (b) financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument (ie without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets; and
- (c) financial instruments whose fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (ie without modification or repackaging) and not based on available observable market data.

BC39D For example, the Board acknowledged that some financial instruments that, for measurement purposes, are considered to have an active market in accordance with paragraphs B5.4.3–B5.4.5 of IFRS 9 might be in Level 2 for disclosure purposes. Also, the application of paragraph B5.4.9 of IFRS 9 might result in no gain or loss being recognised on the initial recognition of a financial instrument that is in Level 2 for disclosure purposes.⁵⁹

BC39E The introduction of the fair value disclosure hierarchy does not affect any measurement or recognition requirements of other IFRSs. In particular, the Board noted that the recognition of gains or losses at inception of a financial instrument (as required by paragraph B5.4.8 of IFRS 9⁶⁰) would not change as a result of the fair value disclosure hierarchy.

⁵⁹ IFRS 13, issued in May 2011, contains the requirements for measuring fair value. As a consequence of issuing that IFRS, paragraphs B5.4.3–B5.4.5 of IFRS 9 were deleted and paragraph B5.4.9 of IFRS 9 was relocated to paragraphs B5.1.2A and B5.2.2A. However, in 2014 the requirements for amortised cost measurement and impairment were added to IFRS 9 as Sections 5.4 and 5.5. Paragraphs B5.4.3–B5.4.5 and paragraph B5.4.9 of IFRS 9 now contain requirements related to amortised cost measurement.

⁶⁰ IFRS 13, issued in May 2011, contains the requirements for measuring fair value. As a consequence of issuing that IFRS, paragraph B5.4.8 of IFRS 9 was deleted. However, in 2014 the requirements for amortised cost measurement and impairment were added to IFRS 9 as Sections 5.4 and 5.5. Paragraph B5.4.8 of IFRS 9 now contains requirements related to amortised cost measurement.

BCA25 Paragraphs BC48A–BC48GG are added:

Disclosure objectives

BC48A In developing the impairment disclosure requirements in this IFRS, the Board sought to supplement the existing disclosures to meet the additional information needs of users of financial statements that will arise specifically from an impairment model based on expected credit losses. When relevant, the Board has considered the comments received on the disclosure requirements proposed in the original Exposure Draft *Financial Instruments: Amortised Cost and Impairment* (the ‘2009 Impairment Exposure Draft’) and the Board-only appendix to the Supplementary Document *Financial Instruments: Impairment*.

BC48B During the development of the expected credit loss requirements, the Board acknowledged that any approach that attempts to reflect expected credit losses will be subject to measurement uncertainty and will place greater emphasis on management’s judgement and the quality of the information used.

BC48C However, the Board believes that this level of judgement is necessary given the differences in how entities approach credit risk management. The Board considered that information is useful and relevant when it enables users of financial statements to predict the likely amounts, timing and uncertainty of future cash flows. Accordingly, the Board identified three objectives for the disclosure requirements and this IFRS requires both qualitative and quantitative disclosures to assist users of financial statements to understand and identify:

- (a) an entity’s credit risk management practices and how they relate to the recognition and measurement of expected credit losses;
- (b) the amounts in the financial statements that arise from expected credit losses that are measured in accordance with IFRS 9, including the changes in the estimate of expected credit losses and the reasons for the changes; and
- (c) an entity’s credit risk profile (ie the credit risk inherent in an entity’s financial instruments), including significant credit concentrations at the reporting date.

Credit risk management practices

BC48D Requiring entities to estimate expected credit losses will increase the significance of forecasts and the use of an entity’s judgement. In addition, IFRS 9 requires entities to incorporate new types of information into the measurement of expected credit losses as compared to IAS 39. In the Board’s view it is helpful for users of financial statements to understand the information entities use to estimate expected credit losses.

BC48E When developing the proposals in the 2013 Exposure Draft *Financial Instruments: Expected Credit Losses* (the ‘2013 Impairment Exposure Draft’) the Board noted that disclosures about the methods, assumptions and

information used to estimate expected credit losses have been a core part of the disclosure package since the 2009 Impairment Exposure Draft, and are important for understanding how an entity applies the expected credit loss requirements. However, the Board acknowledges that different entities will use different information and techniques for assessing whether they should recognise lifetime expected credit losses. The information and techniques that an entity uses will depend on the nature of its financial instruments and other factors.

BC48F The 2013 Impairment Exposure Draft acknowledged and permitted this. The Board considered that to understand how an entity has applied the proposed expected credit loss requirements, the following information would be relevant and useful:

- (a) how significant increases in credit risk are assessed and identified;
- (b) how default is defined and the reasons for selecting that definition;
- (c) how an entity assesses that financial assets are credit-impaired; and
- (d) the write-off policy applied.

BC48G Respondents to the 2013 Impairment Exposure Draft supported the disclosure of that qualitative information, with a few respondents requesting the disclosure of more qualitative information about the modification of financial instruments and how an entity has incorporated macroeconomic information in its estimates of expected credit losses.

BC48H As noted in paragraph BC5.252 of IFRS 9, the notion of default is fundamental to the application of the impairment model, particularly because it affects the population that is subject to the 12-month expected credit loss measure. The Board noted during redeliberations on the 2013 Impairment Exposure Draft that default can be interpreted in various ways, ranging from broad judgemental definitions based on qualitative factors to narrower non-judgemental definitions focusing only on non-payment. The appropriate definition also depends on the nature of the financial instrument in question. Given the various interpretations of default, the Board decided to require the disclosure of an entity's definition of default and the reasons for its selection.

BC48I The Board considered that an explanation of how forward-looking information, including macroeconomic information, has been incorporated in the measurement of expected credit losses would provide relevant and useful information, given the requirement in IFRS 9 to consider all reasonable and supportable information that is available without undue cost and effort when determining whether there has been a significant increase in credit risk since initial recognition. The Board also considered that an explanation of how an entity has applied the requirements in paragraph 5.5.12 of IFRS 9 for the modification of contractual cash flows of financial assets, including how an entity

determines whether the credit risk of modified financial assets has improved so that is not considered to be significantly increased compared to initial recognition, would enhance the understanding of how an entity manages credit risk through modifications and restructurings.

BC48J The 2013 Impairment Exposure Draft proposed that an entity should disclose the nominal amount of financial assets that have been written off but that are still subject to enforcement activity. This was included because feedback from users of financial statements indicated users would like to understand the extent to which recoveries of written off assets are still possible. The Board acknowledged this desire, however it determined that the disclosure of the aggregate amount of financial assets that have been written off but that remain subject to enforcement activity would not provide the most relevant information for this purpose. For example, the nominal amount could be very high (particularly as time passes, if the asset legally continues to accrue interest) even though the prospect of recovering any amounts outstanding might be extremely low. In addition, the Board received feedback from preparers that tracking these amounts for an extended period would be operationally burdensome. As a result, the Board decided to modify the disclosure and require that entities disclose the amount of financial assets that have been written off during the period, while narrative information is provided about financial assets that have previously been written off but that are still subject to enforcement activity.

BC48K The Board also proposed narrative disclosures to complement the quantitative disclosures. In the Board's view, users of financial statements would further benefit from a qualitative explanation of changes in estimates of expected credit losses. Estimates of expected credit losses may change, for example, because of changes in the volume of financial instruments, changes in overall market conditions or as a result of a significant event (for example, a sovereign debt crisis, weather-related events or other disasters). The disclosures should therefore include a qualitative narrative describing how significant events have affected the entity's estimate of expected credit losses.

Financial instruments evaluated on an individual basis

BC48L Previously paragraph 37(b) of IFRS 7 required an analysis of financial instruments that are individually determined to be credit-impaired as at the end of the reporting period, including an analysis of the factors that the entity considered when determining that those financial instruments are credit-impaired. Many entities already disclose the loan balance and loss allowance amount for both collectively and individually assessed credit-impaired loans. Consequently, the 2013 Impairment Exposure Draft proposed amendments to those requirements to limit them to financial instruments that an entity assesses individually for recognition of lifetime expected credit losses.

BC48M During outreach activities, users of financial statements noted that it is important for them to understand which financial instruments an entity assesses on an individual basis, especially when that individual assessment is because of an increase in credit risk and closer management of the instrument. While these financial instruments may not have experienced an increase in credit risk greater than those evaluated on a group basis, the Board concluded that this distinction helps users of financial statements to understand how an entity is monitoring and managing credit risk, so it is useful even when the difference is not attributable to differences in credit risk.

BC48N However, several respondents to the 2013 Impairment Exposure Draft argued that a disclosure of the gross carrying amount of financial assets (and the amount recognised as a loss allowance for loan commitments and financial guarantee contracts) that are assessed on an individual basis is not relevant in an impairment model based on expected credit losses. These respondents argued that unlike in IAS 39, the loss allowance does not result from objective evidence of impairment on an individual asset.

BC48O The Board noted that conceptually, an assessment on an individual or collective basis should render the same result. However, as noted in paragraph B5.5.2 of IFRS 9, an entity may not have access to reasonable and supportable information that enables it to identify significant increases in credit on an individual basis prior to financial assets becoming past due. Furthermore, an entity may only be able to incorporate forward-looking information in its estimates of expected credit losses on a collective basis. The Board therefore decided instead to require the disclosure of information about how an entity has grouped financial instruments if they are assessed or measured on a collective basis.

Amounts arising from expected credit losses

Reconciliation of the gross carrying amount and loss allowance

BC48P The Supplementary Document proposed the mandatory use of a loss allowance account for credit losses, with separate disclosure of reconciliations for the two groups of financial assets that an entity would distinguish for the purpose of determining the loss allowance (ie assets in the 'good book' and assets in the 'bad book'). Almost all respondents supported the mandatory use of a loss allowance account. Consequently, the 2013 Impairment Exposure Draft retained that proposal.

BC48Q The 2013 Impairment Exposure Draft also retained the proposal in the Supplementary Document to show a reconciliation of the gross carrying amount of financial assets separately for each of the groups of financial assets that an entity would distinguish between for the purpose of determining the loss allowance (ie 12-month expected credit losses and lifetime expected credit losses) and each of the related loss allowances. Respondents (including preparers) generally supported disclosing a reconciliation (ie flow information) of changes in the loss allowance and

stated that it was operational and useful. However, similar to the feedback received on the Supplementary Document, respondents to the 2013 Impairment Exposure Draft commented that showing separate reconciliations of the gross carrying amount of financial assets was onerous, especially when they were required to disclose the effect of the change of financial assets between those with loss allowances measured at amounts equal to 12-month and lifetime expected credit losses. They noted that when loss allowances are determined on a collective (ie portfolio) basis, an entity does not allocate loss allowances to individual financial assets. Preparers also stated that the costs associated with the disclosure, and any disclosure about flow information, would be substantial. In order to provide this information for open portfolios, an entity would be required to track changes in the credit risk of individual financial instruments and calculate the change in the loss allowance that results from new loans, derecognised assets, changes between 12-month and lifetime loss allowances and changes in estimates of credit losses. They noted that this would be contrary to the requirement in IFRS 9 which requires lifetime expected credit losses to be recognised even if a significant increase in credit risk cannot be identified on an individual financial instrument basis.

BC48R During outreach, users of financial statements have consistently and strongly expressed the view that the change in the gross carrying amount of financial assets and the effect on the loss allowance are critical elements in understanding the credit quality of an entity's financial instruments and its credit risk management practices. They held the view that the reconciliation of the gross carrying amount of financial instruments would greatly enhance transparency of an entity's financial asset portfolio. While these disclosures would require systems changes and the cost of providing the information would be high, the Board noted that such reconciliations provide key information about movements between 12-month and lifetime loss allowances and about the causes of changes in expected credit losses and about the effect of changes in volume and credit quality.

BC48S The Board therefore decided to retain the requirement to provide a reconciliation of the changes in the loss allowance. However, in the light of the feedback about the operational burden of reconciling the changes in the gross carrying amount of financial assets, the Board clarified that the objective of that reconciliation is to provide information about the key drivers for changes in the gross carrying amount to the extent that it contributes to changes in the loss allowance during the period. Examples of such key drivers for change could include new originations and purchases, deterioration of existing financial instruments resulting in the loss allowance changing to lifetime expected credit losses and financial assets being written off during the period. The Board also acknowledged that although the most relevant and useful information will be provided by disclosing the gross movements between loss allowance measurement categories, in some circumstances, or for some types of financial assets, information will be more useful if the

movements are disclosed on a net basis (for example trade receivables accounted for in accordance with the general approach in IFRS 9).

Loan commitments and financial guarantee contracts

BC48T The 2013 Impairment Exposure Draft proposed that expected credit losses on loan commitments and financial guarantee contracts should be recognised as a provision in the statement of financial position. The Board noted that it would be inappropriate to recognise a loss allowance for such financial instruments because there is no corresponding asset with which to present that loss allowance.

BC48U The Board noted feedback on the 2013 Impairment Exposure Draft that indicated that for most loan commitments and financial guarantee contracts, entities estimate expected credit losses on an instrument (facility) level and are therefore not able to distinguish the expected credit losses related to the drawn component (the financial asset) and the undrawn component (the loan commitment). Consequently, it would not seem appropriate to attempt to allocate expected credit losses to each of these components for the purposes of presenting the loss allowance on each component separately and any allocation would probably be arbitrary.

BC48V The Board therefore decided that the loss allowance on a loan commitment or a financial guarantee contract should be presented together with the loss allowance for expected credit losses on the associated financial asset, if an entity cannot separately identify the expected credit losses related to the separate components. To the extent that the amount of expected credit losses on a loan commitment or a financial guarantee contract exceeds the carrying amount of the associated financial asset recognised in the statement of financial position, the remaining balance should be presented as a provision.

Purchased or originated credit-impaired assets

BC48W The Board sought to enhance the comparability of financial assets that are credit-impaired on initial recognition with those that are not. Consequently, the Board decided that an entity should disclose the undiscounted expected credit losses that are implicit in the pricing at initial recognition for purchased or originated credit-impaired financial assets. Users of financial statements have indicated that such a disclosure would be helpful in alleviating some of the complexity in this area of accounting and would allow them to see the possible contractual cash flows that an entity could collect if there was a favourable change in expectations of credit losses for such assets.

Modifications

BC48X Throughout the Impairment project, users of financial statements have noted that an area in which current disclosures and information is insufficient is that of restructurings and modifications. Particularly during the global financial crisis, users have expressed frustration at the

difficulty of understanding the extent of restructuring activity that entities are undertaking in respect of their financial assets.

BC48Y The 2013 Impairment Exposure Draft proposed to require the disclosure of the gross carrying amount of financial assets that have been modified during their life at a time when the loss allowance was measured at lifetime expected credit losses and for which the measurement of the loss allowance had subsequently changed back to 12-month expected credit losses. This proposed requirement resulted from users of financial statements requesting information to enable them to understand the amount of financial assets that have been modified and that have subsequently improved in credit quality. During redeliberations the Board noted operational concerns raised in feedback from preparers about the need to meet such a requirement by tracking individual financial assets, particularly even long after such assets have returned to a performing status and are no longer closely monitored for credit risk management purposes. The Board noted that the usefulness of the information would decrease over time as an increasing number of assets are required to be included in the disclosure. The Board therefore decided to limit the requirement to financial assets that have previously been modified at a time when the loss allowance was measured at lifetime expected credit losses and for which the loss allowance has changed back to 12-month expected credit losses during the reporting period.

BC48Z During redeliberations of the 2013 Impairment Exposure Draft the Board received feedback that the modification guidance in IFRS 9 should be limited to modifications of credit-impaired assets or modifications undertaken for credit risk management purposes. The Board rejected these views and confirmed that the scope of this guidance applies to all modifications of contractual cash flows, regardless of the reason for the modification. In making this decision, the Board noted that an amortised cost carrying amount equates to the present value of the expected contractual cash flows, discounted at the effective interest rate. Consequently, the carrying amount should reflect changes in those contractual cash flows, irrespective of the reason for the modification occurring. In addition, it was noted that any change in contractual terms will have an impact on credit risk, even if small. Furthermore, the Board noted that it has been told previously that identifying those modifications that have been performed for credit risk management (ie non-commercial) purposes is operationally challenging. Consequently, the disclosures in paragraph 35K of IFRS 7 apply to all modifications of contractual cash flows.

Collateral and credit risk mitigation disclosures

BC48AA Collateral and other credit risk mitigants are important factors in an entity's estimate of expected credit losses. For instance, an entity with more heavily collateralised loans will, all other things being equal, record a smaller loss allowance for credit losses than an entity with unsecured loans. The previous requirements of paragraph 36(b) of IFRS 7

required the disclosure of information similar to that proposed in the 2013 Impairment Exposure Draft. However, the Board received feedback that these collateral disclosures were too onerous and costly to prepare, and therefore proposed to limit the quantitative collateral disclosure requirements to those financial instruments that become credit-impaired subsequent to initial recognition.

BC48BB Feedback on the 2013 Impairment Exposure Draft indicated that respondents remained concerned about the disclosure of quantitative information about collateral for financial instruments that become credit-impaired subsequent to initial recognition. The Board maintained the view that information about the financial effect of collateral is useful. However, the Board noted that it did not intend to require providing information about the fair value of collateral. In addition, the Board decided that qualitative information should be disclosed about how collateral and other credit enhancements have been incorporated into the measurement of expected credit losses on all financial instruments.

Credit risk exposure

BC48CC Because the recognition of lifetime expected credit losses is based on a significant increase in credit risk since initial recognition, there could be a wide range of initial credit risk for which 12-month expected credit losses is recognised (for example, loans that are originated with a high credit risk but have not increased in credit risk subsequently would have a loss allowance based on 12-month expected credit losses as would high quality loans that have not significantly increased in credit risk since initial recognition). To provide users of financial statements with information about the changes in the loss allowance and the entity's exposure to credit risk on financial instruments, the 2013 Impairment Exposure Draft proposed a disaggregation of the carrying amounts of financial instruments into credit risk categories, for both 12-month and lifetime expected credit losses.

BC48DD Disaggregating by credit risk shows the entity's exposure to credit risk and its credit risk profile at a given point in time (ie the reporting date). Users of financial statements indicated that they were concerned about the relative nature of the disclosure that is based on the range of credit risk relevant to the entity's portfolio and that it would lack comparability as a result (ie a high risk for one entity may only be a medium risk for another). Furthermore, without vintage information, a user would not be able to determine whether changes in the risk profile are a result of changes in the credit risk of existing financial instruments or a result of the credit risk of new instruments recognised during the period. However, they believed that risk disaggregation would still provide insight into an entity's exposure to credit risk and were therefore in favour of including it in the notes to the financial statements. The Board required the disclosure because changes in risk will affect the measurement of expected credit losses and it would therefore provide users of financial statements with information about

the drivers of the change in the measurement. The Board also noted that this disclosure, particularly when considered together with the reconciliation of the gross carrying amount and loss allowance, provides relevant and useful information about credit risk migration and changes in overall credit risk over time.

BC48EE The Board considered adding language to the proposed disclosure that would have required an entity to reconcile this disclosure to internal credit rating grades. However, responses to the Supplementary Document considered this internal risk-rating information to be proprietary and therefore objected to this level of specificity. Consequently, the Board decided not to propose this reconciliation.

BC48FF Some respondents to the 2013 Impairment Exposure Draft also commented that the disclosure was incompatible with the credit risk management practices for some asset classes and for non-financial entities, and noted that the disclosure should be aligned with an entity's internal credit risk approach. In the light of this feedback the Board decided to remove the requirement to provide a disaggregation across a minimum of three credit risk rating grades, and instead require that the disaggregation to be aligned with how credit risk is managed internally. The Board additionally decided to permit the use of an ageing analysis for financial assets for which delinquency information is the only borrower-specific information available to assess significant increases in credit risk.

Simplified approach for trade receivables, contract assets and lease receivables

BC48GG This IFRS includes exceptions to the general disclosures for trade receivables, contract assets and lease receivables when an entity applies the simplified approach. The Board noted that these exemptions provide relief that is consistent with the intention to simplify the application of the impairment model for these categories of financial assets to alleviate some of the practical concerns of tracking changes in credit risk.

BCA26 Paragraph BC73 is amended to read as follows:

BC73 The main changes to the proposals in ED 7 are:

- (a) ...
- (b) a requirement has been added for disclosures about the difference between the transaction price at initial recognition (used as fair value in accordance with paragraph B5.4.8⁶¹ of IFRS 9) and the results of a valuation technique that will be used for subsequent measurement.
- (c) ...

61 IFRS 13, issued in May 2011, contains the requirements for measuring fair value. As a consequence of issuing that IFRS, paragraph B5.4.8 of IFRS 9 was deleted. However, in 2014 the requirements for amortised cost measurement and impairment were added to IFRS 9 as Sections 5.4 and 5.5. Paragraph B5.4.8 of IFRS 9 now contains requirements related to amortised cost measurement.

BCA27 The reference to ‘IAS 39 *Financial Instruments: Recognition and Measurement*’ in paragraph BC17, the reference to ‘IAS 39’ in paragraph BC23A and the heading above paragraph BC26 are footnoted as follows:

* IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. This paragraph refers to matters relevant when IFRS 7 was issued.

BCA28 The reference to ‘IAS 39’ in paragraph BC65A is footnoted as follows:

* IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

IFRS 9 *Financial Instruments* (issued November 2009)

BCA29 Headings and paragraph BC95F and BC95G are added:

Mandatory effective date of IFRS 9—November 2013

BC95F In the light of the feedback it had received on the Exposure Draft *Classification and Measurement: Limited Amendments to IFRS 9* (Proposed amendments to IFRS 9 (2010)) published in November 2012, the IASB decided to defer the mandatory effective date of IFRS 9. The IASB decided that it will be able to determine the appropriate mandatory effective date only after it finalises the requirements for impairment and classification and measurement and has considered the lead time that is necessary to implement those new requirements. Consequently, the IASB decided that the mandatory effective date should not be specified in IFRS 9 until the outstanding phases are finalised. However, the IASB confirmed that in the meantime application of IFRS 9 is still permitted.

Mandatory effective date of IFRS 9—July 2014

BC95G In the completed version of IFRS 9, issued in July 2014, the IASB specified that entities must adopt the completed version of IFRS 9 for annual periods beginning on or after 1 January 2018.

IFRS 9 *Financial Instruments* (issued October 2010)

BCA30 Headings and paragraphs BC7.9F, BC7.9G and BC7.34N are added:

Mandatory effective date of IFRS 9—November 2013

BC7.9F In the light of the feedback it had received on the Exposure Draft *Classification and Measurement: Limited Amendments to IFRS 9* (Proposed amendments to IFRS 9 (2010)) (the ‘2012 Limited Amendments Exposure Draft’), published in November 2012, the IASB decided to defer the mandatory effective date of IFRS 9. The IASB decided that it will be able to determine the appropriate mandatory effective date only after it finalises the requirements for impairment and classification and measurement and has considered the lead time that is necessary to implement those new requirements. Consequently, the IASB decided that the mandatory effective date should not be specified in IFRS 9 until

the outstanding phases are finalised. However, the IASB confirmed that in the meantime application of IFRS 9 is still permitted.

Mandatory effective date of IFRS 9—July 2014

BC7.9G In the completed version of IFRS 9, issued in July 2014, the IASB specified that entities must adopt the completed version of IFRS 9 for annual periods beginning on or after 1 January 2018.

Transition related to the presentation of ‘own credit’ gains and losses on financial liabilities added to IFRS 9 in November 2013

BC7.34N During the redeliberations of the 2012 Limited Amendments Exposure Draft, the IASB confirmed the proposal in that Exposure Draft that the requirements in relation to gains and losses arising from changes in own credit risk should be made available for early application without applying any other requirements of IFRS 9 at the same time. However, in order to respond to the feedback that the own credit requirements should be made available as soon as possible, the IASB decided to incorporate those requirements into IFRS 9 (2010) and later versions. The IASB also confirmed its previous decision not to incorporate the own credit requirements into IAS 39 because that IFRS is being replaced by IFRS 9.

IFRS 9 *Financial Instruments* (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)

BCA31 A heading and paragraph BC7.9J are added:

Mandatory effective date of IFRS 9—July 2014

BC7.9J In the completed version of IFRS 9, issued in July 2014, the IASB specified that entities must adopt the completed version of IFRS 9 for annual periods beginning on or after 1 January 2018.

IFRS 10 *Consolidated Financial Statements*

BCA32 The reference to ‘IAS 39’ in paragraphs BC220, BC223, BC246, BC250, BC283 and BC296 is footnoted as follows:

* IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

IFRS 12 *Disclosure of Interests in Other Entities*

BCA33 The reference to ‘IAS 39 *Financial Instruments: Recognition and Measurement*’ in paragraph BC61C is footnoted as follows:

* IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

IFRS 13 *Fair Value Measurement*

BCA34 The reference to ‘IAS 39 *Financial Instruments: Recognition and Measurement*’ in paragraph BC25, the first reference to ‘IAS 39’ in paragraphs BC26, BC47, BC92, BC106, BC138, BC152 and BC244(a)(ii) and the headings above paragraphs BC101, BC106, BC108 and BC132 are footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

IAS 1 *Presentation of Financial Statements*

BCA35 The reference to ‘IAS 39 *Financial Instruments: Recognition and Measurement*’ in paragraph BC38A and to ‘IAS 39’ in paragraph BC38B are footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. This paragraph refers to matters relevant when IAS 1 was issued.

BCA36 The reference to ‘available-for-sale’ in paragraphs BC49 and BC69 is footnoted as follows:

- * IFRS 9 *Financial Instruments* eliminated the category of available-for-sale financial assets. This paragraph refers to matters relevant when IAS 1 was issued.

BCA37 The term ‘held-to-maturity investments’ in paragraph BC77 is footnoted as follows:

- * IFRS 9 *Financial Instruments* eliminated the category of held-to-maturity financial assets. This paragraph refers to matters relevant when IAS 1 was issued.

IAS 17 *Leases*

BCA38 The reference to ‘IAS 39 *Financial Instruments: Recognition and Measurement*’ in paragraph BC21 is footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. This paragraph refers to matters relevant when IAS 17 was issued.

IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

BCA39 The reference to ‘IAS 39 *Financial Instruments: Recognition and Measurement*’ in paragraph BC2 and the first reference to ‘IAS 39’ in paragraph BC3 are footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. This paragraph refers to matters relevant when IAS 20 was amended in 2008.

IAS 19 *Employee Benefits*

- BCA40 The reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' in paragraph BC181 is footnoted as follows:
- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. The requirements in paragraph AG59 of IAS 39 were relocated to paragraph B3.3.3 of IFRS 9.
- BCA41 The reference to 'IAS 39' in paragraphs BC185 and BC195 are footnoted as follows:
- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. This paragraph refers to matters relevant when IAS 19 was issued.
- BCA42 The reference to 'IAS 25 *Accounting for Investments*' in paragraph BC191 is footnoted as follows:
- * IAS 25 was superseded by IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 40 *Investment Property*. IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. This paragraph refers to matters relevant when IAS 19 was issued.

IAS 23 *Borrowing Costs*

- BCA43 The footnote in paragraph BC20(a) is replaced with:
- * In 2007 the Board was advised that some of the components of borrowing costs in paragraph 6 are broadly equivalent to the components of interest expense calculated using the effective interest method in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Consequently, the Board amended paragraph 6 to refer to the relevant guidance in IAS 39 when describing the components of borrowing costs. Subsequently, IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

IAS 27 *Separate Financial Statements*

- BCA44 The reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' in paragraphs BC8A and BC9 is footnoted as follows:
- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.
- BCA45 The reference to the term 'available-for-sale' in paragraph BC9 is footnoted as follows:
- * IFRS 9 *Financial Instruments* eliminated the category of available-for-sale financial assets.

BCA46 In the Dissenting Opinions on the amendments to IFRS 1 and IAS 27 issued in May 2008, the reference to ‘IAS 39 *Financial Instruments: Recognition and Measurement*’ in paragraph DO3 is footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that previously were within the scope of IAS 39.

IAS 28 *Investments in Associates and Joint Ventures*

BCA47 The reference to ‘IAS 39 *Financial Instruments: Recognition and Measurement*’ in paragraph BCZ41 and the reference to ‘IAS 39’ in paragraph BCZ46 are footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that previously were within the scope of IAS 39.

BCA48 The term ‘available-for-sale equity instrument’ in paragraph BCZ44 is footnoted as follows:

- * IFRS 9 *Financial Instruments* eliminated the category of available-for-sale financial assets.

IAS 32 *Financial Instruments: Presentation*

BCA49 A heading and paragraphs BC3B and BC3C are added:

Scope

BC3B In November 2013 the Board amended the scope of IAS 32 so that it conformed to the scope of IAS 39 as amended in November 2013 regarding the accounting for some executory contracts (which was changed as a result of replacing the hedge accounting requirements in IAS 39).

BC3C IFRS 9 replaced IAS 39 and consequentially in July 2014 the scope of IAS 39 was relocated to IFRS 9.

BCA50 The reference to ‘IAS 39 *Financial Instruments: Recognition and Measurement*’ in paragraph BC2 and the first reference to ‘IAS 39’ in paragraphs BC26 and BC53 are footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

BCA51 The first reference to ‘IAS 39’ in paragraph BC25 is footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. The requirements of paragraph 43 of IAS 39 relating to the initial measurement of financial assets were relocated to paragraph 5.1.1 of IFRS 9.

BCA52 In the Dissenting Opinion on the issue of IAS 32 in December 2003, the reference to ‘IAS 39’ in paragraph DO2 is footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

BCA53 The reference to 'IFRS 9 *Financial Instruments* (1 January 2015)' in paragraph BC119 is footnoted as follows:

- * In the completed version of IFRS 9, issued in July 2014, the Board specified that entities must adopt the completed version of IFRS 9 for annual periods beginning on or after 1 January 2018.

IAS 36 *Impairment of Assets*

BCA54 The reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' in paragraph BCZ7 is footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

BCA55 The footnote to the reference to 'IAS 39' in paragraph BCZ15(d) is replaced with:

- * The Board's project to revise IAS 32 and IAS 39 in 2003 resulted in the relocation of the requirements on fair value measurement from IAS 32 to IAS 39. Subsequently to that, IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. In 2011 the Board's project on fair value measurement resulted in the relocation of the requirements for measuring fair value to IFRS 13.

IAS 39 *Financial Instruments: Recognition and Measurement*

BCA56 The rubric is amended to read as follows:

IFRS 9 Financial Instruments replaced IAS 39. However, the Board did not reconsider most of the requirements of IAS 39 relating to scope, classification and measurement of financial liabilities or derecognition of financial assets and financial liabilities. Accordingly the following were relocated to IFRS 9: paragraphs BC11C, BC15–BC24Y, BC30–BC79A and BC85–BC104.

BCA57 Headings and paragraphs BC2–BC130, BC221 and BC222 are deleted.

BCA58 The footnotes to the reference to 'IAS 39' in paragraphs BC185(d), BC186, BC189(a), BC201(f) and BC203 are deleted. The following footnotes are amended to read as follows:

- | | |
|---|--|
| Paragraph BC185(d) and to the reference to 'required to be paid' in paragraphs BC186 and BC189(a) | IFRS 9 <i>Financial Instruments</i> replaced IAS 39. |
| To the reference to 'held-to-maturity' in paragraph BC201(f) | IFRS 9 eliminated the category of held-to-maturity. |
| Paragraph BC203(b) | IFRS 9 replaced IAS 39. |

- BCA59 The Dissenting Opinions from the issue of IAS 39 in December 2003, *The Fair Value Option* in June 2005 and the *Reclassification of Financial Assets* in October 2008 are deleted.

IAS 40 *Investment Property*

- BCA60 The reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' in paragraphs BC8 and B2 and the reference to 'IAS 39' in paragraphs B46(b), B54 and B63(d) are footnoted as follows:

* IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39. This paragraph refers to matters relevant when IAS 40 was issued.

- BCA61 The reference to 'IAS 39' in paragraph B35 is footnoted as follows:

* IFRS 9 *Financial Instruments* eliminated the held-to-maturity category. This paragraph discusses matters relevant when IAS 40 was issued.

- BCA62 The reference to 'available-for-sale' in paragraph B63(a) is footnoted as follows:

* IFRS 9 *Financial Instruments* eliminated the category of available-for-sale financial assets.

- BCA63 The reference to 'IAS 39' in paragraph B67(a)(i) is footnoted as follows:

* Paragraph 69 was replaced by paragraph 46 when the Board revised IAS 39 in 2003. IFRS 9 *Financial Instruments* deleted paragraph 46 of IAS 39.

IAS 41 *Agriculture*

- BCA64 The reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' in paragraph B48 and to the reference to 'IAS 39' in paragraph B54 are footnoted as follows:

* IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*

- BCA65 The reference to 'IAS 39' in paragraph BC18 is footnoted as follows:

* IFRS 9 *Financial Instruments* replaced IAS 39. Paragraph 49 of IAS 39 was ultimately relocated to paragraph 47 of IFRS 13 *Fair Value Measurement*. Paragraph BC18 refers to matters relevant when IFRIC 2 was issued.

IFRIC 4 *Determining whether an Arrangement contains a Lease*

- BCA66 The reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' in paragraph BC14 is footnoted as follows:

* IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

BCA67 The reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' in paragraph BC6 and the first reference to 'IAS 39' in paragraphs BC8(b), BC8(c), BC20, BC24 and BC27 and the heading above paragraph BC11 are footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

BCA68 The term 'available-for-sale financial asset' in paragraph BC11 is footnoted as follows:

- * IFRS 9 *Financial Instruments* eliminated the categories of available-for-sale and held-to-maturity financial assets.

IFRIC 10 *Interim Financial Reporting and Impairment*

BCA69 The reference to 'IAS 39' in paragraph BC2 is footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

IFRIC 12 *Service Concession Arrangements*

BCA70 The reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' in paragraph BC43(a) and the reference to 'IAS 39' in paragraph BC59 and the heading above paragraph BC60 are footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

BCA71 The reference to 'IAS 39' in paragraph BC11 is footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced the hedge accounting requirements in IAS 39. However, the requirements regarding hedges of a net investment in a foreign operation were retained from IAS 39 and relocated to IFRS 9.

IFRIC 17 *Distributions of Non-cash Assets to Owners*

BCA72 The reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' in paragraph BC22 and the reference to 'IAS 39' in paragraphs BC37 and BC50 are footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

BCA73 The reference to 'IAS 39' in paragraph BC28(a) is footnoted as follows:

- * IFRS 9 *Financial Instruments* requires all investments in equity instruments to be measured at fair value.
- BCA74 The footnotes to the reference to ‘active market’ in paragraphs BC28(a) and BC29 are replaced with:
- * IFRS 13 *Fair Value Measurement*, issued in May 2011, defines fair value and contains requirements for measuring fair value. IFRS 13 defines a Level 1 input as a quoted price in an active market for an identical asset or liability. Level 2 inputs include quoted prices for identical assets or liabilities in markets that are not active. As a result IFRS 9 refers to such equity instruments as ‘an equity instrument that does not have a quoted price in an active market for an identical instrument (ie a Level 1 input)’.
- BCA75 The reference to ‘AG81’ in paragraph BC29 is footnoted as follows:
- * IFRS 9 *Financial Instruments* deleted paragraphs AG80 and AG81 of IAS 39. IFRS 13 *Fair Value Measurement*, issued in May 2011, defines fair value and contains requirements for measuring fair value. IFRS 13 defines a Level 1 input as a quoted price in an active market for an identical asset or liability. Level 2 inputs include quoted prices for identical assets or liabilities in markets that are not active. As a result IFRS 9 refers to such equity instruments as ‘an equity instrument that does not have a quoted price in an active market for an identical instrument (ie a Level 1 input)’.
- BCA76 The reference to ‘IAS 39’ in paragraph BC32 is footnoted as follows:
- * IFRS 9 *Financial Instruments* eliminated the requirement in IAS 39 for some assets to be measured using a historical cost basis.
- BCA77 The term ‘available-for-sale investment’ in paragraph BC47(e) is footnoted as follows:
- * IFRS 9 *Financial Instruments* eliminated the category of available-for-sale financial assets.
- BCA78 The reference to ‘IAS 39’ in paragraph BC47(f) is footnoted as follows:
- * IFRS 9 *Financial Instruments* replaced the hedge accounting requirements in IAS 39.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

- BCA79 The reference to ‘IAS 39 *Financial Instruments: Recognition and Measurement*’ in paragraph BC2 and the reference to ‘IAS 39’ in paragraphs BC10, BC20, BC24, BC31 and BC34(c) are footnoted as follows:
- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

SIC Interpretation 7 *Introduction of the Euro*

- BCA80 The footnote to the third sentence in paragraph 6 is amended to read as follows:

- * As SIC-7 was issued before IAS 39, the previous version of this Interpretation could refer only to the entity's own accounting policies on the matter. The accounting for hedges was subsequently covered under IAS 39 *Financial Instruments: Recognition and Measurement*. In November 2013 the Board replaced the hedge accounting requirements in IAS 39 and relocated them to IFRS 9 *Financial Instruments*.

SIC Interpretation 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*

BCA81 The rubric '[The original text ... struck through]' is deleted and replaced with the following rubric:

[The requirements of IAS 39 relating to classification and measurement of items within the scope of IAS 39 were relocated to IFRS 9 Financial Instruments. To avoid confusion with earlier amendments marked up on the original text to reflect the revision of IAS 39 in 2003 and the subsequent issue of IFRS 4, paragraphs 14 and 15 have been amended for consistency with IFRS 9.]

BCA82 Paragraphs 14 and 15 are amended to read as follows:

- 14 When an Entity does not control the assets that will be used to satisfy the lease payment obligations, and is not obligated to pay the lease payments, it does not recognise the assets and lease payment obligations, because the definitions of an asset and a liability have not been met. This is different from the circumstance when an Entity controls the assets, is obligated to pay the lease payments, and then later transfers assets to a third party (including a trust). In that circumstance, the transfer of assets (sometimes called an 'in-substance' defeasance) does not by itself relieve the Entity of its primary obligation, in the absence of legal release. A financial asset and a financial liability, or a portion of either, are derecognised only when the requirements of paragraphs 3.2.1–3.2.23, 3.3.1–3.3.4, B3.2.1–B3.2.17 and B3.3.1–B3.3.7 of IFRS 9 are met.
- 15 IFRS 4 provides guidance for recognising and measuring financial guarantees and similar instruments that provide for payments to be made if the debtor fails to make payments when due, if that contract transfers significant insurance risk to the issuer. Financial guarantee contracts that provide for payments to be made in response to changes in relation to a variable (sometimes referred to as an 'underlying') are subject to IAS 39.

Paragraph 15 is footnoted as follows:

- * IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.