

Exposure Draft

ED 173
December 2008

Investments in Debt Instruments (Proposed Amendments to AASB 7)

Comments to AASB by 8 January 2009

Prepared by the
Australian Accounting Standards Board



Australian Government

**Australian Accounting
Standards Board**

Commenting on this Exposure Draft

Constituents are strongly encouraged to respond to both the AASB and the IASB. The AASB is seeking comment by 8 January 2009. Comments should be addressed to:

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA
E-mail: standard@asb.gov.au

Respondents to the IASB are asked to send their comments electronically through the 'Open to Comment' page on the IASB website (www.iasb.org)

All non-confidential submissions to the AASB will be made available to the public on the AASB website: www.asb.gov.au.

Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AASB website: www.asb.gov.au. Alternatively, printed copies of this Exposure Draft are available by contacting:

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AASB REQUEST FOR COMMENTS

In light of the Australian Accounting Standards Board's (AASB's) policy of incorporating International Financial Reporting Standards (IFRSs) into Australian Accounting Standards, the AASB is inviting comments on:

- (a) any of the proposals in the attached International Accounting Standards Board (IASB) Exposure Draft, including the specific questions on the proposals as listed in the Invitation to Comment section of the attached IASB Exposure Draft; and
- (b) the 'AASB Specific Matters for Comment' listed below.

The AASB would prefer that respondents supplement their opinions with detailed comments, whether supportive or critical, on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

Due Date for Comments to the AASB

Comments should be submitted to the AASB by 8 January 2009. This will enable the AASB to consider those comments in the process of formulating its own comments to the IASB. Constituents are also strongly encouraged to send their response to the IASB.

AASB Specific Matters for Comment

1. The IASB is proposing that the amendments be applicable to annual reporting periods ending on or after 15 December 2008. AASB Standards are legislative instruments and under the *Legislative Instruments Act 2003* there is an impediment to making an instrument that applies to a date prior to the instrument being made. Accordingly, the AASB will be commenting to the IASB that the effective date should be a date after the amendments are made. Accordingly, the AASB would particularly value any additional comments on whether:
 - (a) there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals to these entities, particularly any issues relating to:
 - (i) not-for-profit private sector entities; and
 - (ii) for-profit public sector entities;
 - (b) overall, the proposals would result in financial statements that would be useful to users; and
 - (c) the proposals are in the best interests of the Australian economy.

Exposure Draft

INVESTMENTS IN DEBT INSTRUMENTS
(PROPOSED AMENDMENTS TO IFRS 7)

Comments to be received by 15 January 2009

This exposure draft *Investments in Debt Instruments* (Proposed amendments to IFRS 7 *Financial Instruments: Disclosures*) is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form as amendments to IFRS 7. Comments on the exposure draft and the Basis for Conclusions should be submitted in writing so as to be received by **15 January 2009**. Respondents are asked to send their comments electronically to the IASB Website (www.iasb.org), using the 'Open to Comment' page.

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence.

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Introduction

- 1 IFRS 7 *Financial Instruments: Disclosures* was issued in 2005 with mandatory application for annual periods beginning on or after 1 January 2007. This exposure draft contains proposals by the International Accounting Standards Board to amend IFRS 7. The proposals would require disclosures about investments in debt instruments that facilitate a comparison between such investments that are classified in different categories.
- 2 Those taking part in the public round-table meetings held by the Board and the US Financial Accounting Standards Board in November and December 2008 in response to the global financial crisis advised the Board that disaggregated information about impairment losses on available-for-sale debt instruments would be useful. Most suggested that disaggregation of the impairment loss should identify the incurred loss portion, ie the loss amount that would be recognised under the impairment model for debt instruments measured at amortised cost ('incurred loss model').
- 3 The Board believes that even more comprehensive disclosures would allow users of financial statements to compare investments in all debt instruments (other than those classified as at fair value through profit or loss), and so would improve financial reporting.
- 4 This exposure draft proposes additional disclosure requirements for all investments in debt instruments other than those classified as at fair value through profit or loss. The proposals are to require:
- (a) information in tabular format about the effect on pre-tax profit or loss as if these instruments were accounted for (i) at fair value and (ii) at amortised cost.
 - (b) a summary of the different measurement bases of these instruments in tabular format that sets out (i) the measurement as in the statement of financial position, (ii) fair value and (iii) amortised cost.

Invitation to comment

The Board invites comments on the amendments to IFRS 7 proposed in this exposure draft, particularly on the questions set out below. Comments are helpful if they:

- (a) comment on the questions as stated,
- (b) indicate the specific paragraph or group of paragraphs to which they relate,
- (c) contain a clear rationale, and
- (d) include any alternative the IASB should consider, if applicable.

Respondents need not comment on all of the questions and are encouraged to comment on any additional issues that, in their view, warrant consideration.

The Board is not requesting comments on matters not addressed in this exposure draft.

Comments should be submitted in writing so as to be received no later than **15 January 2009**.

Question 1

The exposure draft proposes in paragraph 30A(a) to require entities to disclose the pre-tax profit or loss as though all investments in debt instruments (other than those classified as at fair value through profit or loss) had been (i) classified as at fair value through profit or loss and (ii) accounted for at amortised cost .

Do you agree with that proposal? If not, why? What would you propose instead, and why?

Question 2

The exposure draft proposes to require disclosing the pre-tax profit or loss amount that would have resulted under two alternative classification assumptions.

Should reconciliations be required between profit or loss and the profit or loss that would have resulted under the two scenarios? If so, why and what level of detail should be required for such reconciliations?

Question 3

The exposure draft proposes in paragraph 30A(b) to require entities to disclose for all investments in debt instruments (other than those classified as at fair value through profit or loss) a summary of the different measurement bases of these instruments that sets out (i) the measurement as in the statement of financial position, (ii) fair value and (iii) amortised cost.

Do you agree with that proposal? If not, why? What would you propose instead, and why?

Question 4

The exposure draft proposes a scope that excludes investments in debt instruments classified as at fair value through profit or loss.

Do you agree with that proposal? If not, would you propose including investments in debt instruments designated as at fair value through profit or loss or those classified as held for trading or both, and if so, why?

Question 5

Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

Question 6

Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

Proposed amendments to International Financial Reporting Standard 7 *Financial Instruments: Disclosures*

After paragraph 30 a new heading and paragraphs 30A and 44G are added.

Significance of financial instruments for financial position and performance

Other disclosures

Investments in debt instruments

30A An entity shall disclose the following for all investments in debt instruments other than those classified as at fair value through profit or loss:

- (a) pre-tax profit or loss as though the instruments had been:
 - (i) classified as at fair value through profit or loss; and
 - (ii) accounted for at amortised cost.
- (b) the following amounts in a way that permits comparison of:
 - (i) the carrying amount in the statement of financial position;
 - (ii) fair value; and
 - (iii) amortised cost.

An entity shall provide the information required by this paragraph in tabular format.

...

Effective date and transition

44G An entity shall apply paragraph 30A for annual periods ending on or after [15 December 2008]. However, comparative information relating to periods before the date of initial adoption is not required.

Guidance on implementing IFRS 7 *Financial Instruments: Disclosures*

After paragraph IG6 a heading is amended (new text is underlined). After paragraph IG14 a heading and paragraph IG14A are added.

Significance of financial instruments for financial position and performance (paragraphs 7–30A, B4 and B5)

Investments in debt instruments (paragraph 30A)

IG14A IFRS 7 requires disclosures about all investments in debt instruments other than those classified as at fair value through profit or loss. A tabular format is required. An entity might disclose the following for those investments to comply with paragraph 30A. (Comparative information is not included in the following example.)

Investments in debt instruments (other than those classified as at fair value through profit or loss)			
	20X1		
	Pre-tax profit or loss in each scenario CU million		
If all investments in debt instruments had been classified as financial assets at fair value through profit or loss	X		
If all investments in debt instruments (other than those classified as at fair value through profit or loss) had been accounted for at amortised cost	X		
	31 Dec 20X1		
Investments in debt instruments classified as:	Carrying amount in the statement of financial position CU million	Fair value CU million	Amortised cost CU million
Loans and receivables	X	X	X
Held-to-maturity investments	X	X	X
Available-for-sale financial assets	X	X	X
	<hr/>	<hr/>	<hr/>
Total	X	X	X

Approval by the Board of *Investments in Debt Instruments* (proposed amendments to IFRS 7) published in December 2008

Investments in Debt Instruments (proposed amendments to IFRS 7 *Financial Instruments: Disclosures*) was approved for publication by the thirteen members of the International Accounting Standards Board.

Sir David Tweedie

Chairman

Thomas E Jones

Vice-Chairman

Mary E Barth

Stephen Cooper

Philippe Danjou

Jan Engström

Robert P Garnett

Gilbert Gélard

James J Leisenring

Warren J McGregor

John T Smith

Tatsumi Yamada

Wei-Guo Zhang

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed amendments to IFRS 7.

Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in proposing amendments to IFRS 7 *Financial Instruments: Disclosures*. Individual Board members gave greater weight to some factors than to others.

Investments in debt instruments

BC2 In response to the global financial crisis the Board, together with the US Financial Accounting Standards Board, held three public round-table meetings in November and December 2008. Some of those attending the meetings suggested disaggregating the impairment losses recognised on available-for-sale debt instruments.

BC3 IAS 39 *Financial Instruments: Recognition and Measurement* requires impairment of debt instruments classified as available for sale to be measured differently from impairment of debt instruments classified as loans and receivables and held to maturity. Available-for-sale debt instruments are carried at fair value and impairment losses are measured as the difference between amortised cost and the lower fair value. In contrast, loans and receivables and held-to-maturity investments are carried at amortised cost and impairment losses are measured as the difference between amortised cost and the present value of estimated future cash flows, calculated using the original effective interest rate or—for variable interest rate instruments—the current effective interest rate ('incurred loss model').

BC4 Most of those taking part in the round-table discussions agreed that the following disaggregated information about impairment losses recognised for available-for-sale debt instruments would be useful:

- (i) the incurred loss portion—determined in the same way as for debt instruments measured at amortised cost using the incurred loss model; and
- (ii) the remainder of the fair value change.

They said the information would be useful because it improves transparency of the fair value decline of debt instruments classified as available for sale and permits comparison with the incurred losses recognised for debt instruments accounted for at amortised cost. Therefore, they considered that information as relevant for their decision making.

BC5 However, some proposed different solutions for providing that disaggregated information. Users of financial statements advocated providing the disaggregation as a disclosure in the notes or, alternatively, by presenting separately the components of the impairment loss in the statement of comprehensive income within profit or loss. Most users of financial statements said that recognition of the fair value impairment loss in profit or loss provides more relevant information, and historically has provided a better indication of ultimate realised losses than the incurred loss model—and that any other approach would damage their confidence in reported profit or loss. However, many preparers of financial statements preferred recognising only the incurred loss portion of the impairment loss in profit or loss and the remainder of the fair value change in other comprehensive income.

BC6 The Board believes that even more comprehensive disclosures would allow users of financial statements to compare investments in all debt instruments (other than those classified as at fair value through profit or loss), and so would improve financial reporting. The proposed disclosure would include all investments in debt instruments other than those classified as at fair value through profit or loss. While recognising that the proposed disclosure would also be useful for investments in debt instruments classified as at fair value through profit or loss the Board decided that it could not require this information because entities are not required to maintain amortised cost-based information for these instruments. Therefore, including these instruments in the scope of the proposed disclosures might be unduly onerous. The Board also decided that the proposed effective date might not allow entities sufficient time to generate amortised cost-based information that does not already exist.

Effective date and transition

- BC7 The Board proposes an effective date of annual periods ending on or after [15 December 2008]. The Board noted that although the effective date of new IFRSs and amendments to IFRSs is usually 6–18 months from the date of issue, the urgent need for disclosures about investments in debt instruments demands earlier application.