**AASB Invitation to Comment** **ITC 26**

March 2012

# Disclosures on Transition to AASB 9

## [proposed amendments to AASB 9 (December 2009), AASB 9 (December 2010) and AASB 7]

<u>Adverse</u> comments to the AASB by 20 April 2012

**Australian Government**

**Australian Accounting Standards Board**

## Commenting on this AASB Invitation to Comment

Adverse comments are requested by 20 April 2012. Comments should be addressed to:

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

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

## Obtaining a Copy of this AASB Invitation to Comment

This AASB Invitation to Comment is available on the AASB website: www.aasb.gov.au. Alternatively, printed copies of this AASB Invitation to Comment are available by contacting:

The Customer Service Officer
Australian Accounting Standards Board
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Melbourne Victoria
AUSTRALIA

Phone: (03) 9617 7637
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## Background to Australian Accounting Standards

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards, including Interpretations, to be applied by:

- entities required by the *Corporations Act 2001* to prepare financial reports;
- governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and
- entities in the private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements.

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 1 requirements incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each Standard in the Australian environment.

Publicly accountable for-profit private sector entities are required to adopt Tier 1 requirements, and therefore are required to comply with IFRSs. Furthermore, other for-profit private sector entities complying with Tier 1 requirements will simultaneously comply with IFRSs. Some other entities complying with Tier 1 requirements will also simultaneously comply with IFRSs.

Tier 2 requirements comprise the recognition, measurement and presentation requirements of Tier 1 but substantially reduced disclosure requirements in comparison with Tier 1.

Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. These requirements do not prevent publicly accountable for-profit private sector entities from complying with IFRSs. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

## Proposed Transitional Disclosure Requirements

This ITC reproduces, expressed for the Australian context, the transitional disclosure requirements specified in IFRS *Mandatory Effective Date and Transition Disclosures* Amendments to IFRS 9 and IFRS 7 in Appendix A. If adopted, these disclosure requirements would replace those in the current versions of AASB 9 *Financial Instruments* (December 2009) and AASB 9 (December 2010) and add disclosure requirements to AASB 7 *Financial Instruments: Disclosures*. The amendments to IFRS 9 and IFRS 7, which were issued in December 2011, introduced transitional disclosures that were not previously exposed, and therefore are the focus of this ITC.

The effect of the proposed amendments would be to require entities adopting Tier 1 or Tier 2 requirements to disclose on transition to AASB 9 the impact of reclassification of financial instruments, rather than restating comparatives (subject to specific rules according to transition date).

At its meeting of 15-16 February 2012 the AASB decided the new IASB transition disclosure requirements that would be adopted in Australia should be made available for a 30-day public comment period.

Appendix A of this ITC does not include the IFRS 9 change of mandatory effective date since the proposal to change the date was previously exposed in AASB ED 215 *Mandatory Effective Date of IFRS 9 [proposed amendments to AASB 9 (December 2009) and AASB 9 (December 2010]*.

Appendix A also does not include all of the consequential amendments that would be required to give effect the proposed changes in Australian Accounting Standards. The consequential amendments that would not have a substantive effect are in the process of being developed. Furthermore, amendments may be effected by the issuance of amendments to existing Amending Standards rather than by directly amending AASB 7 and AASB 9.

The IASB also amended the Implementation Guidance that accompanies IFRS 9 in relation to the disclosure requirements that are the subject of this ITC. The amendments are included in the IFRS, which is attached to this ITC as Appendix B.

## Earlier Consultation

In August 2011 the International Accounting Standards Board (IASB) issued ED 2011/3 *Mandatory Effective Date of IFRS 9*, which proposed to change the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015 (from 1 January 2013). The AASB issued ED 215 in August 2011, which incorporated the IASB's proposals.

## AASB View

The AASB's view is that:

(a) in light of the AASB's policy of incorporating IFRSs into Australian Accounting Standards, the transition disclosures in Appendix A of this ITC should be incorporated into Australian Accounting Standards; and

(b) based on the Analysis of the Proposed Disclosure requirements available on the AASB website under Work in Progress/Reduced Disclosure Requirements, the Tier 2 disclosure requirements should be the same as the Tier 1 requirements

## AASB Request for Adverse Comments

The AASB invites comments from constituents who hold a different view to be submitted to the AASB by 20 April 2012.

# Appendix A

# Amendments to AASB 9 (2009), AASB 9 (2010) and AASB 7 in respect of Transition Disclosures that would be necessary to align with IFRS

## Amendments to AASB 9 (December 2009)

Paragraph 8.2.12 is amended as follows (deleted text is struck through and new text is underlined):

8.2.12 ~~Notwithstanding~~ Despite the requirement in paragraph 8.2.1, an entity that adopts this Standard for reporting periods:

(a) beginning before 1 January 2012 need not restate prior periods~~.~~ and is not required to provide the disclosures set out in paragraphs 44S-44W of AASB 7;

(b) beginning on or after 1 January 2012 and before 1 January 2013 shall elect either to provide the disclosures set out in paragraphs 44S-44W of AASB 7 or to restate prior periods; and

(c) beginning on or after 1 January 2013 shall provide the disclosures set out in paragraphs 44S-44W of AASB 7. The entity need not restate prior periods.

If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application.

## Amendments to AASB 9 (December 2010)

Paragraphs 7.2.10 and 7.2.14 of AASB 9 are amended as follows (deleted text is struck through and new text is underlined):

7.2.10 If it is impracticable (as defined in AASB 108) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58-65 and AG84-AG93 of AASB 139, the entity shall treat the fair value of the financial asset or financial liability at the end of each comparative period as its amortised cost if the entity restates prior periods. ~~In those circumstances~~ If it is impracticable (as defined in AASB 108) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58-65 and AG84-AG93 of AASB 139, the fair value of the financial asset or financial liability at the date of initial application shall be treated as the new amortised cost of that financial asset or financial liability at the date of initial application of this Standard.

7.2.14 Despite the requirement in paragraph 7.2.1, an entity that adopts the classification and measurement requirements of this Standard for reporting periods:

(a) beginning before 1 January 2012 need not restate prior periods~~.~~ and is not required to provide the disclosures set out in paragraphs 44S-44W of AASB 7;

(b) beginning on or after 1 January 2012 and before 1 January 2013 shall elect either to provide the disclosures set out in paragraphs 44S-44W of AASB 7 or to restate prior periods; and

(c) beginning on or after 1 January 2013 shall provide the disclosures set out in paragraphs 44S-44W of AASB 7. The entity need not restate prior periods.

If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application. However, if an entity restates prior periods, the restated financial statements must reflect all of the requirements in this Standard.

## Amendments to AASB 7

Paragraph 44I is amended as follows (new text is underlined) and paragraphs 44S-44W are added:

44I When an entity first applies AASB 9, it shall disclose for each class of financial assets and financial liabilities at the date of initial application:

(a) the original measurement category and carrying amount determined in accordance with AASB 139;

(b) the new measurement category and carrying amount determined in accordance with this AASB 9;

(c) the amount of any financial assets and financial liabilities in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated, distinguishing between those that AASB 9 requires an entity to reclassify and those that an entity elects to reclassify.

44S When an entity first applies the classification and measurement requirements of AASB 9, it shall present the disclosures set out in paragraphs 44T-44W of this Standard if it elects to, or is required to, provide these disclosures in accordance with paragraph 7.2.14 of AASB 9.

44T If required by paragraph 44S, at the date of initial application of AASB 9 an entity shall disclose the changes in the classifications of financial assets and financial liabilities, showing separately:

(a) the changes in the carrying amounts on the basis of their measurement categories in accordance with AASB 139 (ie not resulting from a change in measurement attribute on transition to AASB 9); and

(b) the changes in the carrying amounts arising from a change in measurement attribute on transition to AASB 9.

The disclosures in this paragraph need not be made after the annual period in which AASB 9 is initially applied.

44U In the reporting period in which AASB 9 is initially applied, an entity shall disclose the following for financial assets and financial liabilities that have been reclassified so that they are measured at amortised cost as a result of the transition to AASB 9:

(a) the fair value of the financial assets or financial liabilities at the end of the reporting period;

(b) the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets or financial liabilities had not been reclassified;

(c) the effective interest rate determined on the date of reclassification; and

(d) the interest income or expense recognised.

If an entity treats the fair value of a financial asset or a financial liability as its amortised cost at the date of initial application (see paragraph 8.2.10 of AASB 9 (2009) and paragraph 7.2.10 of AASB 9 (2010)), the disclosures in (c) and (d) of this paragraph shall be made for each reporting period following reclassification until derecognition. Otherwise, the disclosures in this paragraph need not be made after the reporting period containing the date of initial application.

44V If an entity presents the disclosures set out in paragraphs 44S-44U at the date of initial application of AASB 9, those disclosures, and the disclosures in paragraph 28 of AASB 108 during the reporting period containing the date of initial application, must permit reconciliation between:

(a) the measurement categories in accordance with AASB 139 and AASB 9; and

(b) the line items presented in the statements of financial position.

44W If an entity presents the disclosures set out in paragraphs 44S-44U at the date of initial application of AASB 9, those disclosures, and the disclosures in paragraph 25 of this Standard at the date of initial application, must permit reconciliation between:

(a) the measurement categories presented in accordance with AASB 139 and AASB 9; and

(b) the class of financial instrument at the date of initial application.

December 2011

International Financial Reporting Standard®

# Mandatory Effective Date and Transition Disclosures

## Amendments to IFRS 9 and IFRS 7

IFRS™

# Mandatory Effective Date of IFRS 9 and Transition Disclosures

(Amendments to IFRS 9 (2009), IFRS 9 (2010) and IFRS 7)

*Mandatory Effective Date of IFRS 9 and Transition Disclosures* (Amendments to IFRS 9 (2009), IFRS 9 (2010) and IFRS 7) is issued by the International Accounting Standards Board (IASB), 30 Cannon Street, London EC4M 6XH, United Kingdom.
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**DISSENTING OPINION OF PATRICIA MCCONNELL**

 

# Introduction

The International Accounting Standards Board (the Board has published these amendments to IFRS 9 (as issued in November 2009 (IFRS 9 (2009)) and in October 2010 (IFRS 9 (2010)); collectively referred to as IFRS 9). These amendments require entities to apply IFRS 9 for annual periods beginning on or after 1 January 2015 instead of on or after 1 January 2013. Early application of both continues to be permitted.

The Board has also modified the relief from restating prior periods. The Board has made amendments to IFRS 7 *Financial Instruments: Disclosures* to require additional disclosures on transition from IAS 39 *Financial Instruments: Recognition and Measurement* to IFRS 9. Entities who initially apply IFRS 9:

(a) before 1 January 2012 need not restate prior periods and are not required to provide the disclosures set out in paragraphs 44S–44W of IFRS 7;

(b) on or after 1 January 2012 and before 1 January 2013 must elect either to provide the disclosures set out in paragraphs 44S–44W of IFRS 7 or to restate prior periods; and

(c) on or after 1 January 2013 shall provide the disclosures set out in paragraphs 44S–44W of IFRS 7. The entity need not restate prior periods.

The Board has undertaken the project to replace IAS 39 in several phases. The first phase of the project addressed the classification and measurement of financial instruments and resulted in the issue of IFRS 9 (2009) and IFRS 9 (2010). IFRS 9 (2009) addressed only financial assets. IFRS 9 (2010) added the requirements for financial liabilities to those for financial assets. Entities that elect to apply IFRS 9 (2009) before its effective date are not subsequently required to apply IFRS 9 (2010) before its effective date also. Consequently, although IFRS 9 (2010) superseded IFRS 9 (2009), IFRS 9 (2009) can still be applied without IFRS 9 (2010) until the mandatory effective date.

The Board has published these amendments because it has extended its time line for completing the remaining phases of the project to replace IAS 39 to beyond June 2011. The Board's intention, stated in the Basis for Conclusions of IFRS 9[*], has been to allow entities to apply the guidance from all phases of the project to replace IAS 39 at the same time. The Board has developed these amendments after considering the views it received since the publication of IFRS 9 (2009) and IFRS 9 (2010), including responses to the *Request for Views on Effective Dates and Transition Methods* (published in October 2010), comments received during outreach on the project to replace IAS 39 and responses to ED/2011/3 *Mandatory Effective Date of IFRS 9.*

* Paragraph BC7.3 and BC7.4 of IFRS 9 (2010) and paragraph BC92 and BC93 of IFRS 9 (2009)

# Amendments to IFRS 9 *Financial Instruments* (2009) and IFRS 9 *Financial Instruments* (2010)

In the Introduction, paragraph IN11 of IFRS 9 (2010) [IN16 of IFRS 9 (2009)] is added.

## Effective date and transition

IN11 *Mandatory Effective Date of IFRS 9 and Transition Disclosures* (Amendments to IFRS 9 (2009), IFRS 9 (2010) and IFRS 7), issued in December 2011, amended the effective date of IFRS 9 (2009) and IFRS 9 (2010) so that IFRS 9 is required to be applied for annual periods beginning on or after 1 January 2015. Early application is permitted. The amendments also modified the relief from restating prior periods. The Board has published amendments to IFRS 7 to require additional disclosures on transition from IAS 39 to IFRS 9. Entities that initially apply IFRS 9 in periods:

(a) beginning before 1 January 2012 need not restate prior periods and are not required to provide the disclosures set out in paragraphs 44S–44W of IFRS 7;

(b) beginning on or after 1 January 2012 and before 1 January 2013 must elect either to provide the disclosures set out in paragraphs 44S–44W of IFRS 7 or to restate prior periods; and

(c) beginning on or after 1 January 2013 shall provide the disclosures set out in paragraphs 44S–44W of IFRS 7. The entity need not restate prior periods.

Paragraphs 8.1.1 and 8.2.12 of IFRS 9 (2009) are amended (deleted text is struck through and new text is underlined).

**8.1 Effective date**

8.1.1 An entity shall apply this IFRS for annual periods beginning on or after 1 January 201~~3~~<u>5</u>. Earlier application is permitted. If an entity applies this IFRS in its financial statements for a period beginning before 1 January 201~~3~~<u>5</u>, it shall disclose that fact and at the same time apply the amendments in Appendix C.

 

**8.2 Transition**

8.2.12 Despite the requirement in paragraph 8.2.1, an entity that adopts this IFRS for reporting periods:

(a) beginning before 1 January 2012 need not restate prior periods~~.~~ and is not required to provide the disclosures set out in paragraphs 44S–44W of IFRS 7;

(b) beginning on or after 1 January 2012 and before 1 January 2013 shall elect either to provide the disclosures set out in paragraphs 44S–44W of IFRS 7 or to restate prior periods; and

(c) beginning on or after 1 January 2013 shall provide the disclosures set out in paragraphs 44S–44W of IFRS 7. The entity need not restate prior periods.

If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application.

> Paragraphs 7.1.1, 7.2.10, 7.2.14 and 7.3.2 of IFRS 9 (2010) are amended (deleted text is struck through and new text is underlined).

**7.1 Effective date**

7.1.1 An entity shall apply this IFRS for annual periods beginning on or after 1 January 201~~3~~5. Earlier application is permitted. However, if an entity elects to apply this IFRS early and has not already applied IFRS 9 issued in 2009, it must apply all of the requirements in this IFRS at the same time (but see also paragraph 7.3.2). If an entity applies this IFRS in its financial statements for a period beginning before 1 January 201~~3~~5, it shall disclose that fact and at the same time apply the amendments in Appendix C.

**7.2 Transition**

7.2.10 If it is impracticable (as defined in IAS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58–65 and AG84–AG93 of IAS 39, the entity shall treat the fair value of the financial asset or financial liability at the end of each comparative period presented as its amortised cost if the entity restates prior periods. ~~In those circumstances~~ If it is impracticable (as defined in IAS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58–65 and AG84–AG93 of IAS 39, the fair value of the financial asset or financial liability at the date of initial application shall be treated as the new amortised cost of that financial asset or financial liability at the date of initial application of this IFRS.

7.2.14 Despite the requirement in paragraph 7.2.1, an entity that adopts the classification and measurement requirements of this IFRS for reporting periods:

(a) beginning before 1 January 2012 need not restate prior periods~~.~~ and is not required to provide the disclosures set out in paragraphs 44S–44W of IFRS 7;

(b) beginning on or after 1 January 2012 and before 1 January 2013 shall elect either to provide the disclosures set out in paragraphs 44S–44W of IFRS 7 or to restate prior periods; and

(c) beginning on or after 1 January 2013 shall provide the disclosures set out in paragraphs 44S–44W of IFRS 7. The entity need not restate prior periods.

If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application.

**7.3 Withdrawal of IFRIC 9 and IFRS 9 (2009)**

7.3.2 This IFRS supersedes IFRS 9 issued in 2009. However, for annual periods beginning before 1 January 201~~3~~5, an entity may elect to apply IFRS 9 issued in 2009 instead of applying this IFRS.

 

# Amendments to IFRS 7 *Financial Instruments: Disclosures*

| Paragraph 44I of IFRS 7 is amended. |
|---|

44I When an entity first applies IFRS 9, it shall disclose for each class of financial assets <u>and financial liabilities</u> at the date of initial application:

(a) the original measurement category and carrying amount determined in accordance with IAS 39;

(b) the new measurement category and carrying amount determined in accordance with IFRS 9;

(c) the amount of any financial assets <u>and financial liabilities</u> in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated, distinguishing between those that IFRS 9 requires an entity to reclassify and those that an entity elects to reclassify.

An entity shall present these quantitative disclosures in tabular format unless another format is more appropriate.

| Paragraphs 44S–44W of IFRS 7 are added. |
|---|

44S When an entity first applies the classification and measurement requirements of IFRS 9, it shall present the disclosures set out in paragraphs 44T–44W of this IFRS if it elects to, or is required to, provide these disclosures in accordance with IFRS 9 (see paragraph 8.2.12 of IFRS 9 (2009) and paragraph 7.2.14 of IFRS 9 (2010)).

44T If required by paragraph 44S, at the date of initial application of IFRS 9 an entity shall disclose the changes in the classifications of financial assets and financial liabilities, showing separately:

(a) the changes in the carrying amounts on the basis of their measurement categories in accordance with IAS 39 (ie not resulting from a change in measurement attribute on transition to IFRS 9); and

(b) the changes in the carrying amounts arising from a change in measurement attribute on transition to IFRS 9.

The disclosures in this paragraph need not be made after the annual period in which IFRS 9 is initially applied.

 

44U In the reporting period in which IFRS 9 is initially applied, an entity shall disclose the following for financial assets and financial liabilities that have been reclassified so that they are measured at amortised cost as a result of the transition to IFRS 9:

(a) the fair value of the financial assets or financial liabilities at the end of the reporting period;

(b) the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets or financial liabilities had not been reclassified;

(c) the effective interest rate determined on the date of reclassification; and

(d) the interest income or expense recognised.

If an entity treats the fair value of a financial asset or a financial liability as its amortised cost at the date of initial application (see paragraph 8.2.10 of IFRS 9 (2009) and paragraph 7.2.10 of IFRS 9 (2010)), the disclosures in (c) and (d) of this paragraph shall be made for each reporting period following reclassification until derecognition. Otherwise, the disclosures in this paragraph need not be made after the reporting period containing the date of initial application.

44V If an entity presents the disclosures set out in paragraphs 44S–44U at the date of initial application of IFRS 9, those disclosures, and the disclosures in paragraph 28 of IAS 8 during the reporting period containing the date of initial application, must permit reconciliation between:

(a) the measurement categories in accordance with IAS 39 and IFRS 9; and

(b) the line items presented in the statements of financial position.

44W If an entity presents the disclosures set out in paragraphs 44S–44U at the date of initial application of IFRS 9, those disclosures, and the disclosures in paragraph 25 of this IFRS at the date of initial application, must permit reconciliation between:

(a) of the measurement categories presented in accordance with IAS 39 and IFRS 9; and

(b) the class of financial instrument at the date of initial application.

# Approval by the Board of *Mandatory Effective Date of IFRS 9 and Transition Disclosures* (Amendments to IFRS 9 (2009), IFRS 9 (2010) and IFRS 7) issued in December 2011

*Mandatory Effective Date of IFRS 9 and Transition Disclosures* (Amendments to IFRS 9 (2009), IFRS 9 (2010) and IFRS 7) was approved for publication by fourteen of the fifteen members of the International Accounting Standards Board. Ms McConnell dissented from the issue of the amendments. Her dissenting opinion is set out after the Basis for Conclusions.

| | |
|---|---|
| Hans Hoogervorst | Chairman |
| Ian Mackintosh | Vice-Chairman |
| Stephen Cooper | |
| Philippe Danjou | |
| Jan Engström | |
| Patrick Finnegan | |
| Amaro Luiz de Oliveira Gomes | |
| Prabhakar Kalavacherla | |
| Elke König | |
| Patricia McConnell | |
| Takatsugu Ochi | |
| Paul Pacter | |
| Darrel Scott | |
| John T Smith | |
| Wei-Guo Zhang | |

# Amendments to the Implementation Guidance of IFRS 9 *Financial Instruments* (2010)

| |
|---|
| After paragraph IE5 of IFRS 9 (2010), the heading and paragraph IE6 are added. |

## Disclosures on Transition from IAS 39 to IFRS 9

IE6 The following illustration is an example of one possible way to meet the quantitative disclosure requirements in paragraphs 44S–44W of IFRS 7 at the date of initial application of IFRS 9. However, this illustration does not address all possible ways of applying the disclosure requirements of this IFRS.

 

**Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2015**

| **Financial assets** | **(i)** | **(ii)** | **(iii)** | **(iv) = (i) + (ii) + (iii)** | **(v) = (iii)** |
|---|---|---|---|---|---|
| | **IAS 39 carrying amount 31 December 2014 (1)** | **Reclassifications** | **Remeasurements** | **IFRS 9 carrying amount 1 January 2015** | **Retained earnings effect on 1 January 2015 (2)** |
| Measurement category: | | | | | |
| **Fair value through profit or loss** | | | | | |
| *Additions:* | | | | | |
| From available for sale (IAS 39) | | (a) | | | (c) |
| From amortised cost (IAS 39) –required reclassification | | (b) | | | |
| From amortised cost (IAS 39) –fair value option elected at 1 January 2015 | | | | | |
| *Subtractions:* | | | | | |
| To amortised cost (IFRS 9) | | | | | |
| **Total change to fair value through profit or loss** | | | | | |
| **Fair value through other comprehensive income** | | | | | |
| *Additions:* | | | | | |
| From fair value through profit or loss (fair value option under IAS 39)–fair value through other comprehensive income elected at 1 January 2015 | | | | | |
| From cost (IAS 39) | | | | | |
| *Subtractions:* | | | | | |
| Available for sale (IAS 39) to fair value through profit or loss (IFRS 9) | | | | | (d) |
| Available for sale (IAS 39) to amortised cost (IFRS 9) | | | | | (e) |
| **Total change to fair value through other comprehensive income** | | | | | |

*continued...*

*...continued*

**Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2015**

| **Financial assets** | **(i)** | **(ii)** | **(iii)** | **(iv) = (i) + (ii) + (iii)** | **(v) = (iii)** |
|---|---|---|---|---|---|
| | **IAS 39 carrying amount 31 December 2014 (1)** | **Reclassifications** | **Remeasurements** | **IFRS 9 carrying amount 1 January 2015** | **Retained earnings effect on 1 January 2015 (2)** |
| **Amortised cost** | | | | | |
| *Additions:* | | | | | |
| From available for sale (IAS 39) | | | | | (f) |
| From fair value through profit or loss (IAS 39)–required reclassification | | | | | |
| From fair value through profit or loss (IAS 39)–fair value option revoked at 1 January 2015 | | | | | |
| *Subtractions:* | | | | | |
| To fair value through profit or loss (IFRS 9) –required reclassification | | | | | |
| To fair value through profit or loss (IFRS 9) –fair value option elected at 1 January 2015 | | | | | |
| **Total change to amortised cost** | | | | | |
| **Total financial asset balances, reclassifications and remeasurements at 1 January 2015** | **(i)** | **Total (ii) = 0** | **(iii)** | **(iv) = (i) + (ii) + (iii)** | |

(1) Includes the effect of reclassifying hybrid instruments that were bifurcated under IAS 39 with host contract components of (a), which had associated embedded derivatives with a fair value of X at 31 December 2014, and (b), which had associated embedded derivatives with a fair value of Y at 31 December 2014.

(2) Includes (c), (d), (e) and (f), which are amounts reclassified from other comprehensive income to retained earnings at the date of initial application.

*continued...*

*...continued*

**Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2015**

| **Financial liabilities** | **(i)** | **(ii)** | **(iii)** | **(iv) = (i) + (ii) + (iii)** | **(v) = (iii)** |
|---|---|---|---|---|---|
| | **IAS 39 carrying amount 31 December 2014 (1)** | **Reclassifications** | **Remeasurements** | **IFRS 9 carrying amount** | **Retained earnings effect on 1 January 2015 (2)** |
| **Fair value through profit or loss** | | | | | |
| *Additions:* | | | | | |
| From amortised cost (IAS 39)–fair value option elected at 1 January 2015 | | | | | |
| *Subtractions:* | | | | | |
| To amortised cost (IFRS 9)–fair value option revoked at 1 January 2015 | | | | | |
| **Total change to fair value through profit or loss** | | | | | |
| **Amortised cost** | | | | | |
| *Additions:* | | | | | |
| From fair value through profit or loss (IAS 39) –required reclassification | | | | | |
| From fair value through profit or loss (IAS 39) –fair value option revoked at 1 January 2015 | | | | | |
| *Subtractions:* | | | | | |
| To fair value through profit or loss (IFRS 9) –fair value option elected at 1 January 2015 | | | | | |
| **Total change to amortised cost** | | | | | |
| **Total financial liability balances, reclassifications and remeasurements at 1 January 2015** | **(i)** | **Total (ii) = 0** | **(iii)** | **(iv) = (i) + (ii) + (iii)** | |
| **Total change to retained earnings at 1 January 2015** | | | | | **(v) = (iii)** |

Note: This illustration assumes that the entity's date of initial application for IFRS 9 (2009) and IFRS 9 (2010) is 1 January 2015.

# Amendments to the Bases for Conclusions of IFRS 9 *Financial Instruments* (2009) and IFRS 9 *Financial Instruments* (2010)

After paragraph BC7.9 of IFRS 9 (2010) [paragraph BC95 of IFRS 9 (2009)], the heading and paragraphs BC7.9A–BC7.9E [BC95A–BC95E] are added.

## Mandatory Effective Date of IFRS 9—November 2011

BC7.9A IFRS 9 (2009) and IFRS 9 (2010) were issued with a mandatory effective date of 1 January 2013. At the time, the Board noted that it would consider delaying the effective date of IFRS 9, if:

(a) the impairment phase of the project to replace IAS 39 made such a delay necessary; or

(b) the new standard on insurance contracts had a mandatory effective date later than 2013, to avoid an insurer having to face two rounds of changes in a short period.

BC7.9B In July 2011 the Board noted that in order to enable an appropriate period for implementation before the mandatory effective date of the new requirements, the impairment and hedge accounting phases of the project to replace IAS 39 would not be mandatory for periods beginning before 1 January 2013. In addition, any new requirements for the accounting for insurance contracts would not have a mandatory effective date as early as 1 January 2013.

BC7.9C As a result of these considerations, in August 2011 the Board issued the exposure draft ED/2011/3 *Mandatory Effective Date of IFRS 9.* In the exposure draft, the Board proposed that the mandatory effective date of IFRS 9 (2009) and IFRS 9 (2010) should be deferred to annual periods beginning on or after 1 January 2015. The Board noted that it did not want to discourage entities from applying IFRS 9 and stressed that early application would still be permitted.

BC7.9D In its redeliberations on the exposure draft in November 2011, the Board decided to confirm its proposal and change the effective date of IFRS 9 (2009) and IFRS 9 (2010) so that IFRS 9 would be required to be applied for annual periods beginning on or after 1 January 2015. In doing so, the Board noted that there are compelling reasons for all project phases to be implemented at the same time and that, based on current circumstances, it is still appropriate to pursue an approach of requiring the same effective date for all phases of this project.

 

BC7.9E However, the Board noted that it is difficult to assess the amount of lead time that will be necessary to implement all phases of the project because the entire project to replace IAS 39 is not yet complete. Ultimately this may affect the Board's conclusion on the appropriateness of requiring the same mandatory effective date for all phases of this project.

After paragraph BC7.34 of IFRS 9 (2010) [paragraph BC117 of IFRS 9 (2009)], the heading and paragraphs BC7.34A–BC7.34M [BC117A–BC117M] are added.

## Disclosures on Transition from IAS 39 to IFRS 9—November 2011

BC7.34A When IFRS 9 (2009) and IFRS 9 (2010) were issued, they provided limited relief from restating comparative financial statements. Entities that adopted the IFRS for reporting periods beginning before 1 January 2012 were not required to restate prior periods. At the time, the Board's view was that waiving the requirement to restate comparative financial statements struck a balance between the conceptually preferable method of full retrospective application (as stated in IAS 8) and the practicability of adopting the new classification model within a short time frame.

BC7.34B In August 2011 the Board issued ED/2011/3 *Mandatory Effective Date of IFRS 9*. At the time, the Board noted that these practicability considerations would be less relevant for entities that adopted outside a short time frame, and therefore proposed that restated comparative financial statements would continue to be required if an entity adopts IFRS 9 for reporting periods beginning on or after 1 January 2012.

BC7.34C Some respondents to the exposure draft believed that comparative financial statements should be required to be restated for the following reasons:

(a) The presentation of restated comparative financial statements is consistent with IAS 8.

(b) A delay in the mandatory effective date of IFRS 9 would allow a sufficient time frame for entities to prepare restated comparative financial statements.

(c) IAS 39 and IFRS 9 are sufficiently different from each other, so restatement will be necessary to provide meaningful information to users of financial statements.

BC7.34D In contrast, those who did not believe that comparative financial statements should be required to be restated argued that:

(a) Comparative relief was granted for IAS 32 and IAS 39 upon first-time adoption of IFRSs for European reporting entities.

(b) Comparability is impaired by the transition requirements, which are complex and inconsistent across various phases of the project, reducing the usefulness of the comparative information (for example, the classification and measurement phase requires retrospective application with some transition reliefs, whereas the hedge accounting phase requires prospective application).

(c) Time pressures similar to those existing when IFRS 9 (2009) and IFRS 9 (2010) were initially issued will nonetheless exist when the last phase of the project to replace IAS 39 is issued.

BC7.34E Respondents to the exposure draft ED/2011/3 also raised specific implementation issues that increased the cost of applying the classification and measurement requirements of IFRS 9 in periods prior to their date of initial application. These reasons were the interaction between the date of initial application and:

(a) the fact that IFRS 9 must not be applied to items that have already been derecognised as of the date of initial application;

(b) the initial business model determination; and

(c) the fair value option and fair value through other comprehensive income elections at the date of initial application.

BC7.34F In providing views on their preferred transition approach for the project to replace IAS 39, investors consistently emphasised a need for comparable period-to-period information—that is, information that enabled them to understand the effect of the transition from IAS 39 to IFRS 9. Investors, irrespective of their preferred approach, noted that the mix of transition requirements between phases, and the modifications to retrospective application in the classification and measurement phase, would diminish the usefulness of comparative financial statements. Many also noted that the partial restatement of comparative financial statements could create either confusion or a misleading impression of period-to-period comparability.

BC7.34G Some investor respondents, despite sharing the views in the preceding paragraph, favoured the presentation of comparative financial statements with full retrospective application of all project phases (ie including hedge accounting) as the preferred way of achieving comparability.

 

Some of the respondents who favoured full retrospective application agreed that the modifications to retrospective application would diminish the usefulness of comparative financial statements but believed that the effect of the modifications would not be significant.

BC7.34H Due to the variation in transition requirements of the phases in the project to replace IAS 39, other investors did not favour the presentation of restated comparative financial statements. Their primary concern was having information that enabled them to understand the effect of the transition from IAS 39 to IFRS 9. They did not believe that restating comparative financial statements on the basis of the transition requirements across the phases of IFRS 9 would necessarily provide that information.

BC7.34I In addition to feedback on their preferred approach to understanding the effect of the transition to IFRS 9, investors also provided information on what they focus on when analysing financial instruments in financial statements. They noted that the statement of profit or loss and other comprehensive income (and restatement of it in comparative periods) is less important to their analysis than the statement of financial position, aside from situations where it allows for a link to the statement of financial position (for example net interest income). Similarly, where restatement means primarily the presentation of historical fair value changes, comparative information is less useful as extrapolation is not possible in the same way as it is for amortised cost information.

BC7.34J Investors also provided feedback on those disclosures that would be useful in understanding the transition from IAS 39 to IFRS 9. They cited examples that they found useful on the transition from other GAAPs to IFRSs in Europe in 2005. It was also noted that disclosures similar to those required by IFRS 7 *Financial Instruments: Disclosures* for transfers of financial assets between classification categories would be useful—ie disclosures about reclassifications are also useful when the reclassifications result from applying a new accounting standard.

BC7.34K In the light of this feedback received, the Board considered whether modified transition disclosures could provide the information necessary for investors to understand the effect of the transition from IAS 39 to IFRS 9, while reducing the burden on preparers that would result from the restatement of comparative financial statements. The Board also considered whether this approach would address concerns about the diminished usefulness and period-to-period comparability of comparative financial statements due to the different transition requirements of the phases of the project to replace IAS 39. The Board believes that modified disclosures can achieve these objectives and decided to require modified transition disclosures instead of the restatement of comparative financial statements.

BC7.34L The Board noted that much of the information requested by investors was already required by IAS 8 and IFRS 7 on transition from IAS 39 to IFRS 9. The Board also noted that it was not modifying the requirements of IAS 8. The Board, however, decided that the reclassification disclosures in IFRS 7 (as amended by IFRS 9 (2009)) should be required on transition from IAS 39 to IFRS 9, irrespective of whether they would normally be required due to a change in business model. The Board also specified that the reclassification disclosures, and other disclosures required when initially applying IFRS 9, should allow reconciliations between the measurement categories in accordance with IAS 39 and IFRS 9 and individual line items in the financial statements or classes of financial instruments. This would provide useful information that would enable users to understand the transition from IAS 39 to IFRS 9.

BC7.34M The Board also considered whether the transition disclosures should be required if the entity presents restated comparative financial statements, or only if they are not provided. The Board noted that the disclosures provide useful information to investors on transition from IAS 39 to IFRS 9, irrespective of whether comparative financial statements are restated. The Board also believed that the burden of these comparative transition disclosures for preparers would not be unreasonable because it was based largely on existing disclosure requirements and should require disclosure of information available as a result of preparing for transition. Consequently, the Board decided to require these disclosures even if restated comparative financial statements are provided. However, the Board did not want to unduly burden those who were in the process of applying IFRS 9 early by requiring disclosures that the entity was not previously required to provide. Therefore, for entities that initially apply the classification and measurement requirements from 1 January 2012 until 31 December 2012, the Board decided to permit, but not require, the presentation of the additional disclosures. If an entity elects to provide these disclosures when initially applying IFRS 9 between 1 January 2012 and 31 December 2012, it would not be required to restate comparative periods.

 

After paragraph DO22 of IFRS 9 (2009) and IFRS 9 (2010), the heading and paragraphs DO23–DO28 are added.

## Dissent of Patricia McConnell from *Mandatory Effective Date of IFRS 9 and Transition Disclosures* (Amendments to IFRS 9 (2009), IFRS 9 (2010) and IFRS 7)

DO23 Ms McConnell concurs with the Board's decision to defer the mandatory effective date of IFRS 9 (2009) and IFRS 9 (2010), but not with its decision to set a mandatory effective date of 1 January 2015. She agrees with the Board that there are compelling reasons for all project phases to be implemented at the same time and, therefore, that the mandatory application of all phases of the project to replace IAS 39 should occur concurrently. However, Ms McConnell does not believe that a mandatory effective date for IFRS 9 (2009) and IFRS 9 (2010) should be established until there is more clarity on the requirements and completion dates of the remaining phases of the project to replace IAS 39, including possible improvements to existing IFRS 9.

DO24 Ms McConnell commends the Board for requiring modified transition disclosures and acknowledges that the modified disclosures will provide useful information that will enable users of financial statements to better understand the transition from IAS 39 to IFRS 9, just as they would provide useful information when financial assets are reclassified in accordance with IFRS 9.

DO25 Although Ms McConnell believes that the modified disclosures are useful, she does not believe that they are an adequate substitute for restated comparative financial statements. Ms McConnell believes that comparative statements are vitally important to users of financial statements. To the extent that the accounting policies applied in comparative financial statements are comparable period-to-period, comparative financial statements enable users to more fully understand the effect of the accounting change on a company's statements of comprehensive income, financial position and cash flows.

DO26 Ms McConnell agrees with the Board that the date of initial application should be defined as a fixed date. In the absence of a fixed date, entities would have to go back to the initial recognition of each individual instrument for classification and measurement. This would be very burdensome, if not impossible. Moreover, particularly because reclassifications in accordance with IFRS 9 only occur (and are required) upon a change in business model for the related group of instruments, reclassifications should be very rare. Consequently, the expected benefit of not naming a fixed date of initial application would not exceed the costs.

DO27 However, Ms McConnell disagrees with defining the date of initial application as the date that an entity first applies this IFRS. She believes that the date of initial application should be defined as the beginning of the earliest period presented in accordance with IFRS 9. This date of initial application would enable entities to compile information in accordance with IFRS 9 while still preparing their external financial reports in accordance with IAS 39. Ms McConnell does not consider that there is a significant risk that entities would use hindsight when applying IFRS 9 to comparative periods prior to those financial statements being reported publicly in accordance with IFRS 9. She also notes that, although it would be costly for entities to prepare financial reporting information in accordance with an extra set of requirements during the comparative period (or periods), this would address concerns on the part of preparers that it is overly burdensome for them to compile information in accordance with IFRS 9 before the date of initial application has passed.

DO28 Ms McConnell acknowledges that defining the date of initial application as the beginning of the earliest date presented would delay the release of financial statements prepared in accordance with IFRS 9 for at least one year, or longer, if the date of initial application were set as she believes it should be. Delays would also result if the mandatory effective date of IFRS 9 was set so that entities could prepare more than one comparative period under IFRS 9 on the basis of requirements in many jurisdictions. Ms McConnell has also considered that it is costly for entities to prepare financial reporting information in accordance with an extra set of requirements during the comparative period (or periods). However, Ms McConnell believes that the benefits to users of financial statements of restated comparative financial statements justify the costs.

 