



28 January 2015

AASB 9 Financial Instruments (December 2014) issued by the AASB

The complete version of [AASB 9 \(2014\) *Financial Instruments*](#) has now been issued. It supersedes AASB 9 (2009), AASB 9 (2010) and AASB 139 *Financial Instruments: Recognition and Measurement* and applies to annual reporting periods beginning on or after 1 January 2018.

Whilst the Standard has been a long time coming and hasn't fully achieved its objective of simplifying the accounting for financial instruments, encouragingly, it does reflect feedback from constituents, particularly from Australian entities on how to make hedge accounting more consistent with risk management practices and how to account for dividends for investments recognised at fair value through other comprehensive income. Accordingly, we strongly encourage any constituents with accounting issues to contact the AASB with any feedback on implementing the new Standard.

Financial institutions and entities with significant financial instruments will be most impacted by the new Standard; however, all entities will need to assess the impact (for example, on systems and processes).

The key changes introduced by the complete version of AASB 9 are:

- requirements for impairment of financial assets based on a three-stage 'expected loss' approach;
- limited amendments to classification and measurement of financial assets to add a third measurement category for debt instruments. The new category of fair value through other comprehensive income is added to the existing categories for debt instruments, i.e. amortised cost and fair value through profit or loss; and
- amendments to AASB 7 *Financial Instruments: Disclosures* that significantly expand the disclosures required in relation to credit risk.

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Whilst the application date may seem to be a long way off, this is one Standard all entities should consider now as to whether there are benefits of early adopting – and, if so, which version to adopt. When considering early application:

- AASB 9 (2010) was amended in December 2013 to include a new chapter on hedge accounting. Entities may wish to early adopt the amended AASB 9 (2010) in order to apply the hedge accounting requirements without applying the new impairment requirements. However, entities should note that AASB 2014-8 limits the application of AASB 9 (2009) and AASB 9 (2010) to reporting periods beginning before 1 February 2015. Entities should also note that hedge accounting can only be applied prospectively from the date the hedge accounting requirements are met.
- entities may benefit from the new approach to hedge accounting which aligns more closely with risk management activities. In particular, entities may benefit from the following improvements in AASB 9 compared to AASB 139:
 - allowing hedge accounting of risk components of non-financial items that are identifiable and measurable (e.g. hedging jet fuel as a component of crude oil). Many such items were prohibited from being designated as hedged items under AASB 139;
 - changes in the accounting for the time value of options, the forward element of a forward contract and foreign-currency basis spreads designated as hedging instruments;
 - modification of the requirements for effectiveness testing (including removal of the ‘bright-line’ effectiveness test that offset for hedging must be in the range 80%-125%);
- entities adopting AASB 9 (2010 or 2014) can make an accounting policy choice to apply either the hedge accounting model in AASB 9 or continue to use the AASB 139 model. Entities also have a choice to continue to use AASB 139 for their macro-hedges and use AASB 9 (2010 or 2014) hedge accounting for their non-macro hedges.

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- the ‘own credit’ changes for financial liabilities designated at fair value through profit or loss can be early applied in isolation of the other requirements in both AASB 9 (2010) and AASB (2014).

AASB 9 applies to the preparation of general purpose financial statements by for-profit, not-for-profit and public sector entities. The Standard and related amendments to other Standards are available on the AASB website <http://www.aasb.gov.au>. Previous versions of AASB 9, issued in 2009 and 2010, are available in the archive section of the AASB website.

December year end entities are also reminded that they will need to refer to this version of AASB 9 to meet the requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* in their disclosure of Standards issued but not yet effective. We note that ASIC has indicated that it pays particular attention to this disclosure.

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