



Project	Financial Instruments: Recognition and Measurement
Topic	Transition: retrospective application

Background

Introduction and purpose of the paper

1. At the 5 June 2009 meeting the Board tentatively decided that an exposure draft (the 'ED') on classification and measurement of financial instruments should propose to require retrospective application of the proposed changes.¹
2. The agenda paper² for that meeting indicated that the staff would bring back an impact analysis, proposals for potential transition relief and possible disclosures on the transition to the new guidance. The paper is structured as follows:
 - (a) impact analysis of retrospective application (including transition relief, if any)
 - (b) disclosures on transition
 - (c) summary of staff recommendations
3. The paper does not address the interaction of the proposals with IFRS 1 *First-time Adoption of International Financial Reporting Standards*. This interaction is addressed in agenda paper 3E for this meeting. It is assumed that any type of transition relief granted when an entity made its transition to IFRS is grandfathered (ie, an entity would have to apply the new guidance only up to the

¹ Board members might find it convenient to have agenda paper 4 from the 5 June 2009 meeting ready for reference.

² See agenda paper 4 from the 5 June 2009, pars. 47-48.

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

point the IFRS 1 transition relief was applied). However, the core principle of IFRS 1 is retrospective application – the staff is confident this minimises any negative interaction with the transition proposals.

4. Further, the paper does not address the transition interaction with other IFRSs, if applicable.
5. **The paper will ask the Board for several decisions on transition. Every section contains a staff recommendation. All staff recommendations are summarised in a table at the end of this paper. It is important to finalise any decisions on transition at this meeting in order to enable the staff to draft the ED in line with the published timetable.**

Impact analysis of retrospective application

Introduction

6. Agenda paper 4 of the 5 June 2009 meeting has already indicated that retrospective application leads to some issues on transition. The following sections address these transition issues and proposed transition relief, if any, in a structured manner.

Prospective application

7. As a reminder, prospective application results in “fresh start”-type accounting. The ED will primarily affect the measurement basis for some financial instruments. If the new guidance results in a change of the measurement basis this would be reflected in the current and future reporting periods:
 - (a) from *fair value* to *amortised cost*: the new measurement basis will be fair value at the date of transition, a new effective interest rate (EIR) will be determined (affecting the current and future periods); and

- (b) from *amortised cost* to *fair value*: the new measurement basis will be fair value at the date of transition, any difference will be recognised in profit or loss for the current period.
8. As highlighted in previous agenda papers, if there is a change in the measurement basis, prospective application impairs:
- (a) the relationship between effective interest as reported in future periods and the contractual yield basis rendering reported interest income (for items measured at amortised cost) less useful to users in their attempt to predict future cash flows of the reporting entity; and
 - (b) comparability for comparative periods, the year of first-application (if part way through) and for future reporting periods.

Retrospective application

9. Retrospective application, as it is defined in IAS 8 requires an entity to apply a new accounting policy as it had always applied that policy. To accomplish this, the opening retained earnings of the earliest period presented (or other component of equity as appropriate) is adjusted for the effects of applying the new accounting policy.
10. When the Board deliberated the current version of IAS 8 it concluded that retrospective application for changes in accounting policies was preferable because:
- (a) profit or loss for the period of change does not include the effects of the accounting policy change relating to prior periods; and
 - (b) information presented about prior periods is prepared on the same basis as the current period, and is therefore comparable. Comparability is a qualitative characteristic of useful information under the IASB *Framework*.
11. IAS 8 sets out limitations to retrospective application when it is **impracticable** to apply the new accounting policy retrospectively or when retrospective

application would involve **hindsight** in determination. In that case IAS 8 requires prospective application along with additional disclosures highlighting the impracticability to apply the new accounting policy.

12. In general, applying an accounting policy change retrospectively is more costly for preparers than prospective application as, in effect, an entity has to analyse every item recognised in any of the periods presented that might be affected by the changed guidance and determine the accounting impact.
 13. For financial instruments, retrospective application involves several challenges from a systems and resource perspective, including:
 - (a) retrospective application of the classification model;
 - (b) retrospective determination of the EIR, if applicable;
 - (c) retrospective determination of impairments and reversals, if applicable;
and
 - (d) assessing and implementing any (additional) hedge accounting relationships
 14. It can be expected that the comment letters to the ED will highlight many issues that arise from retrospective application and ask for transitional relief. However, experience shows that constituents can only comment on these issues once they have analysed the full model as it will be proposed in the ED.
 15. The staff believes that both retrospective and prospective application will result in incremental costs. No transition to changed guidance will be without additional cost. However, the staff maintains its assessment that the benefits to users of financial statements in terms of historic and future comparability from applying the new guidance retrospectively outweigh the cost of transition.
- Retrospective application and reversal of losses*
16. At the 5 June 2009 Board meeting some Board members expressed their concern over the potential to reverse losses by way of classifying financial instruments to be measured amortised cost.

17. The staff acknowledges these concerns. However, this is a consequence of retrospective application. Many changes to IFRSs led to significant adjustments to the opening retained earnings of reporting entities – in both directions. The staff does not believe IAS 39 is different in that respect, except for the increased visibility amongst constituents at the moment.
18. The flipside of any attempt to use retrospective application to reverse losses by measuring the item at amortised cost is that any recoveries in the fair values will not be reflected - such recoveries, in the view of many commentators, could reasonably be expected as many losses were presumed to be the result of irrational pricing in dysfunctional markets. As reclassifications from one measurement basis to another will not be permitted an entity cannot realise these gains unless and until the instrument is derecognised. Further, any losses that are not market-related will be reflected in impairment losses.
19. Prospective application, on the contrary, would provide a misleading picture of the future cash flow prospects of an entity. As any item that would have to be measured at amortised cost under the new classification model would have its EIR reset on the date of transition, the new EIR unwinds the effects of any losses over the remaining life of the instrument. We know the importance attached to interest margin by many users of financial statements in valuing financial institutions. If such users apply higher multiples or another type of valuation overlay (that weighs different types of income differently) to the interest income from such instruments (as they are considered more stable and less complex instruments), the signals from such high yields distort the quality of the information and hence, is less useful to users.
20. As a further complication, for financial liabilities the Board is currently reconsidering the accounting for changes in an entity's own credit risk when determining fair value. Any decisions on that issue (for example excluding own credit risk from measurement) will have a knock-on effect on any switch of the measurement basis to amortised cost under the new guidance.

21. In summary, the staff believes that, while retrospective application could lead to reversals of losses, the risk is limited due to the repercussions for future accounting periods and the classification model in general.

Classification

22. The classification approach proposed by the Board would require entities to review comprehensively the classification of its financial instruments that determines their respective measurement basis.
23. Basically, for an instrument to be measured at amortised cost two criteria are required to be met:
- (a) characteristics of the financial instrument provide for a lending-type return; and
 - (b) the instrument is managed on a contractual yield basis.
24. The staff believes that the information on the characteristics for a financial instrument should be readily available. For some entities there is a cost involved in analysing the contracts for the initial classification under the new guidance. However, the staff believes the benefits of applying the new guidance retrospectively outweigh the costs involved.
25. The staff acknowledges that the robustness of the second criterion for amortised cost in the classification model is crucial. If that criterion provides too many degrees of freedom this would impair comparability and hence, the usefulness of retrospective application for users.³
26. However, this second criterion may be difficult for some preparers that try to retrospectively assess what the original business purpose for entering into the contract was. For example some financial instruments, during their life, might have been held in different business units of a reporting entity that have different

³ See agenda paper 3A for this meeting and agenda paper 2 of the 1+5 June 2009 meeting.

business models. Those instruments could have been held by the entity for many years.

27. Furthermore, the staff believes that users are served better if they receive information that is based on the way that financial instruments are managed at the date of transition to the new guidance as this has higher predictive value in assessing the future cash flow prospects of an entity.
28. Therefore the staff concludes that an entity should make **the assessment** about the second criterion as at the date of transition. However, once that assessment has been made, retrospective application of **the accounting requirements** should be required.
- 29. The staff recommends requiring the assessment of the second criterion in the classification model, the ‘managed on a contractual yield basis’- criterion, based on the facts and circumstances that existed on the date of transition to the new guidance. Once that assessment has been made, retrospective application of the accounting consequences should be required.**

Questions to the Board

Does the Board agree with the staff recommendation as set out in paragraph 29 above?

If not, what does the Board wish to do, and why?

Equity instruments at fair value through OCI

30. The Board has tentatively decided to require some equity instruments to be measured at fair value through OCI if those equity instruments meet a specified principle. Under current IAS 39, many of these instruments are accounted for as available-for-sale financial assets with changes in fair value recognised in OCI. However, the proposed approach to classification into measurement at fair value

through OCI is different to today's guidance – and it seems reasonable to expect that a lower number of equity instruments qualify for this method of accounting.

31. For the purposes of transition, the Board has to decide whether to require an entity, at the date of transition to identify any equity instruments that have to be accounted for using the OCI method. For equity instruments that are required to be measured at fair value through OCI, retrospective transition can result in transfers between AFS reserve, retained earnings and the component in OCI to be set up for those investments.
32. Agenda paper 3B of this meeting recommends that the OCI method should require reclassifications if the principle is no longer met or is subsequently met. Hence, an entity would have to determine whether it holds any qualifying instruments that meet the principle at the date of transition. Retrospective application of an OCI method requiring reclassifications would also require assessment whether the principle was met or not met at any point in time since inception of the equity instruments.
33. If the Board decides to prohibit reclassifications, the staff believes that the entity should assess whether the principle for applying the OCI method was met at the date of inception of the contract.
34. The staff believes the number of equity instruments that would qualify for the OCI method is limited and will be highly visible within reporting entities. Hence, preparers should be in a position to apply retrospectively any final guidance, which will improve comparability of the information provided.
35. **The staff recommends that regardless of the Board's decision on reclassifications under the OCI method the new guidance should be implemented fully retrospective. The staff believes that the benefits of comparable information outweigh the cost of transition.**

Questions to the Board

Does the Board agree with the staff recommendation as set out in paragraph 35 above?

If not, what does the Board wish to do, and why?

Financial instruments currently classified as available-for-sale

36. The proposed classification model would not provide for an available-for-sale (AFS) category.
37. Some equity instruments will be accounted for under the OCI method – any amount in the AFS reserve relating to these instruments will be transferred from the AFS reserve to the new component of OCI in the opening retained earnings of the earliest period presented (assuming that the instrument has always qualified for the OCI method).
38. Some financial assets currently classified as AFS will be accounted for at fair value through profit or loss. Any amount in the AFS reserve relating to these instruments will be transferred to the opening retained earnings of the earliest period presented.
39. Other financial assets (debt instruments) currently classified as AFS will be accounted for at amortised cost. As described below the information necessary to measure the item at amortised cost is readily available.
40. (However, as the impairment model is different from today's 'loans and receivables' and 'held-to-maturity' categories, retrospective determination of impairment might be challenging. This is discussed separately below.)
- 41. The staff recommends full retrospective application. The staff believes no specific transition relief is justified for AFS financial assets.**

Questions to the Board

Does the Board agree with the staff recommendation as set out in paragraph 41 above?

If not, what does the Board wish to do, and why?

Hybrid contracts

42. **The staff will provide its analysis on hybrid contracts in a separate addendum to this agenda paper.**

Fair value option

43. The ED will likely contain a fair value option that will be available only to eliminate or significantly reduce an accounting mismatch. Two of the three criteria in current IAS 39 to qualify for the fair value option would be eliminated as a result of the new classification model:
- (a) managed and assessed on a fair value basis (IAS 39.9(b)(ii)); and
 - (b) contains an embedded derivative (IAS 39.11A).
44. For transition, the question arises whether:
- (a) an entity is permitted to *designate* any recognised financial assets and financial liabilities into the fair value option at the date of transition; and/or
 - (b) an entity is required or permitted to *dedesignate* any recognised financial assets and financial liabilities out of the fair value option at the date of transition.
45. The staff believes that it would be consistent with the concept of retrospective application to permit or require designating financial instrument into and out of the fair value option. The following scenarios can occur on the date transition:

- (a) designation is permitted if the criteria are met
 - (b) dedesignation:
 - (i) required if a financial instrument no longer meets the criteria for designation
 - (ii) permit a reporting entity to dedesignate a financial instrument under the new classification model
46. The staff reaches this conclusion not only because the criteria for applying the fair value option will change, but also because the whole classification model for financial instruments will change as a result of the ED. Many entities have applied the fair value option to eliminate or significantly reduce an accounting mismatch. The new classification model might lead entities to reconsider the original assessment.
47. Alternatively, the Board could decide not to permit or require any form of designation into or out of the fair value option, ie apply the new fair value option prospectively to new contracts only. In that case, the modified fair value option would only be applicable to new contracts. However, this would impair comparability of the financial information provided (one of the advantages of retrospective application) and users would not be able to identify the instruments that are accounted for under the previous fair value option and whether these instrument would qualify for the revised fair value option (unless specific disclosures are required).
- 48. Hence, the staff proposes to require explicitly, at the date of transition and irrevocably, that the assessment of designating financial instruments into and out of the fair value option is performed at the date of transition to the new guidance. The accounting effects of any designation/dedesignation would have to be applied retrospectively.**

Questions to the Board

Does the Board agree with the staff recommendation as set out in paragraph 48 above?

If not, what does the Board wish to do, and why?

Measurement

Effective interest rate (EIR)

49. If an entity switches its measurement basis for a financial instrument from fair value through profit or loss to amortised cost, it has to determine the EIR as defined in IAS 39.9 including applying the guidance in AG5-AG8.⁴
50. To determine the initial EIR retrospectively, an entity must determine the following information:
- (a) estimated future cash flow considering all contractual terms of the financial instrument (excluding future losses);
 - (b) fees and points paid or received between the contract parties that are integral to the EIR;
 - (c) transaction costs;
 - (d) any premiums and discounts.
51. If those inputs are determined, generating the EIR is, in essence, a calculation of an internal rate of return on the expected cash flows. This might be challenging from a systems perspective if a large number of items have to be processed. However, assuming the final standard becomes effective for annual periods

⁴ As a reminder, for AFS debt instruments the EIR will be available as it was required to recognise interest income.

beginning on or after 1 January 2011, the staff believes this gives entities sufficient lead time for any necessary system changes and initialisation of data.

52. The benefit to users is that instruments managed on a contractual yield basis are reported on that basis (ie, the EIR) for all periods presented and future periods, making financial statements of one entity comparable and allowing for trend analysis. Not requiring retrospective application of the EIR requirements would undermine the rationale for requiring financial instruments to be reported at amortised cost.
- 53. Thus, the staff recommends requiring full retrospective application of the EIR requirements. The staff believes that users need EIR information based on the original terms and conditions. As discussed previously, resetting the EIR prospectively does not provide useful information about reported interest and projections of interest for future periods.**

Questions to the Board

Does the Board agree with the staff recommendation as set out in paragraph 53 above?

If not, what does the Board wish to do, and why?

Impairment

54. If an entity, under the new guidance, classifies any financial asset from a fair value basis to an amortised cost basis it has to determine retrospectively any impairments and reversals of impairments under a retrospective application regime.

55. This would include the following steps:⁵
- (a) identify any loss events;
 - (b) determine the expected cash flows after the loss event has occurred;
 - (c) determine any impairment loss by discounting the expected cash flows with the original EIR;
 - (d) adjust the carrying amount; and
 - (e) determine if any events have occurred subsequent to the loss event that caused a (partial) reversal of the impairment loss.
56. Between the inception of the contract and the date of transition for a single financial instrument several impairments and reversals might have occurred before the date of transition.
57. The staff wishes to highlight that this process can be cumbersome, in particular for entities with a large number of financial assets that are measured at amortised cost under the new guidance, but originally were measured at fair value prior to transition. Further, the process of identifying loss events retrospectively inevitably involves hindsight.
58. The staff believes that it is appropriate to require prospective application of the impairment guidance for amortised cost financial assets. To ensure that all financial assets measured at amortised cost are carried at their recoverable amount after transition, an impairment test should be required at the date of transition to the new guidance.
59. This means that all financial assets that are subject to the impairment requirements have to be tested for impairment at the date of transition. Any impairment loss would have to be recognised at this point in profit or loss. However, this means that comparative amounts are reported under an

⁵ Some of the information below is available for AFS debt instruments: loss events, EIR and events triggering reversals.

assumption that no impairment has occurred. Any impairments that might have occurred before the date of transition are caught up at this date (unless a reversal had occurred previously).

60. Any reversal of an impairment loss that had been recognised on transition would only be permitted to be recognised if the event that caused the reversal occurred after the date of transition.
- 61. The staff recommends requiring prospective application of the impairment model from the date of transition for the reasons set out above. To ensure all financial assets measured at amortised cost are carried at their recoverable amount an impairment test should be required at the date of transition.**

Questions to the Board

Does the Board agree with the staff recommendation as set out in paragraph 61 above?

If not, what does the Board wish to do, and why?

Financial instruments carried at cost less impairment

62. At the 5 June 2009 meeting the Board decided that the ED should propose to eliminate cost measurement for some unquoted equity instruments and physically settled derivatives linked to such instruments.⁶ Retrospective application would mandate retrospectively determining fair value for such instruments. However, as these instruments have been carried at cost less impairment in the financial statements and were exempted from the fair value

⁶ See Agenda Paper 3B 1+5 June 2009 Board meeting.

disclosures required by IFRS 7.25, entities generally will not have the necessary information to generate fair values retrospectively with using hindsight.

63. IAS 8.52 makes clear that for some types of estimates it is difficult to distinguish information that provides evidence of the circumstances that existed on the date(s) as at which the transaction, other event or condition occurred and that was available when the financial statements have been authorised for issue for the period to be restated from other information (that might only have been available subsequently). Hence, IAS 8 considers retrospective application impracticable in these situations and mandates prospective application from the start of the earliest period practicable. The staff believes this is the case for financial instruments measured at cost under current IAS 39.
64. While entities might arrive at this conclusion by applying IAS 8, the staff believes that the transition provisions in the ED should be clear about how transition works for financial instruments that are measured at cost less impairment under the current guidance.
65. **Hence, the staff recommends adding a paragraph to the transition section that would make clear that the fair value for such instruments is to be determined at the date of transition and the difference to be recognised in profit or loss for the period of transition.**

Hedge accounting

66. Hedge accounting for financial instruments⁷ can be affected in two ways from the change in the classification model:
 - (a) hedge accounting is no longer applicable as the entity classifies the hedged item as at fair value through profit or loss; and

⁷ Hedge accounting for non-financial items is not affected by the change in the classification criteria as is any designation of firm commitments and forecast transactions as hedged items

- (b) hedge accounting might be demanded as the entity classifies the hedged item as being measured at amortised cost.
67. Full retrospective application of the hedge accounting requirements in IAS 39 would lead to the following consequences:
- (a) if hedge accounting is no longer applicable, hedge accounting would have to be unwound (see below for approaches to this); and
 - (b) if hedge accounting might be demanded no consequences arise as hedge accounting is applicable only prospectively.
68. The latter point might need some explanation. The Board has never permitted retrospective application of hedge accounting, particularly as this would allow selective designation of some hedges to report a particular result. The staff recommends that position be continued.
69. Back to (a). If hedge accounting is no longer applicable the effects of hedge accounting can be reversed as follows:
- (a) full retrospective application (ie, basis adjustments and any amortisation for a fair value hedge and any amount in OCI for a cash flow hedge would have to be reversed out to the opening retained earnings of the earliest period presented); or
 - (b) (prospective) discontinuation of hedge accounting in accordance with IAS 39.91 and IAS 39.101.
- 70. The staff proposes to require any hedge relationship that has to be dedesignated under the new classification model to be accounted for as a discontinuation of hedge accounting. This would:**
- (a) ensure consistency with the approach taken in IFRS 1; and**
 - (b) provide transition relief for preparers as it would not be necessary to identify and reverse any hedge accounting effect retrospectively.**

The staff believes that the benefits of full retrospective application do not justify the cost for preparers to generate the necessary information.

Questions to the Board

Does the Board agree with the staff recommendations as set out in paragraph 70 above?

If not, what does the Board wish to do, and why?

Disclosures in IFRS 7

71. IFRS 7 *Financial Instruments: Disclosures* requires comprehensive quantitative and qualitative disclosures about financial instruments. Comparative information is required by IAS 1, at a minimum, for the prior period. Some preparers could be required by local law or regulation to provide comparative information for more than one period.
72. The changes to classification and measurement of financial instruments have an impact on the disclosures to be presented. Further, consequential amendments will have to be made to align IFRS 7 with the ED.⁸
73. Generating the information required for disclosure purposes will require changes to existing accounting systems. Depending on the number and types of financial instruments these changes can be substantial.
74. It is expected that the effective date of any final standard will be for annual periods beginning on or after 1 January 2011. The ED will propose to permit early application.
75. Early adopters might face resource challenges when they have to generate the information for the purposes of IFRS 7 (including any consequential amendments) in addition to the efforts that they have to make to report the numbers in the primary financial statements for the current and prior period,

⁸ See agenda paper 3F of this meeting.

particularly if they have to provide some information on both the new guidance and current IAS 39 (see below).

76. A potential relief for early adopters would be not to require comparative information for the year of adoption. However, the staff believes, while early adoption of the improved guidance is to be welcomed, it would not be justified to provide relief from comparative information, which is important for users of financial statements.
77. The staff wishes to highlight that the mandatory effective date possibly will not be before 1 January 2011 to allow all final documents of the financial instruments project to become effective at the same time. This provides sufficient lead time for prepares to undertake the necessary system changes and generate the comparative information based on the new guidance.
- 78. The staff proposes not to provide any transitional relief from the requirement to report comparative information in accordance with IFRS 7.**

Questions to the Board

Does the Board agree with the staff recommendations as set out in paragraph 78 above?

If not, what does the Board wish to do, and why?

Disclosures

Entity adopts new guidance from the effective date

79. IAS 8.28 requires an entity to disclose the effects of initial application of an IFRS on any prior, current or future period:
- (a) the title of the IFRS;

- (b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;
 - (c) the nature of the change in accounting policy;
 - (d) when applicable, a description of the transitional provisions;
 - (e) when applicable, the transitional provisions that might have an effect on future periods;
 - (f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
 - (i) for each financial statement line item affected; and
 - (ii) if IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share;
 - (g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
 - (h) if retrospective application required by paragraph 19(a) or (b) of IAS 8 is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.
80. This information has to be provided for the period of initial application of the new guidance only.
81. The staff believes these disclosures are sufficient to inform users about the impact of the new guidance if an entity applies the new guidance from the effective date.
- 82. Thus, the staff proposes not requiring any additional disclosures when an entity moves to the new guidance from the effective date.**

Does the Board agree with the staff recommendations as set out in paragraph 82 above?

If not, what does the Board wish to do, and why?

Entity adopts new guidance early

83. However, as the ED will propose to allow the final standard to be early adopted, comparability between entities could be impaired until the final standard becomes mandatorily applicable. The staff believes that some entities, in particular banks and insurers, will early adopt the final guidance, given their interest in this accelerated project. The impact of transition to the new guidance on their financial statements can be significant for such entities.
84. To counter the impaired comparability that will exist temporarily until the mandatory effective date, the staff believes comprehensive disclosures are necessary to assist users in comparing the financial position and performance of entities.
85. **The staff proposes requiring the following disclosures in addition to the disclosures required by IAS 8 for early adopters:**
- (a) **an additional statement of financial position prepared on the basis of the classification and measurement model under current IAS 39 for all periods presented;**
 - (b) **an additional statement of comprehensive income prepared on the basis of the classification and measurement model under current IAS 39 for all periods presented;**
 - (c) **a table comparing the carrying amount under the current version of IAS 39 with the carrying amount under the new guidance per class (as defined in IFRS 7) for each period presented; and**

- (d) **narrative information on how the entity applied the new classification model and how the model impacts the entity's financial position and financial performance in the current and future periods.**

These disclosures would have to be provided until the annual period where the new guidance will become effective for all entities reporting in accordance with IFRS. For example, if the effective date was annual periods beginning on or after 1 January 2011, this would be the annual period when an early adopter could stop providing the transitional disclosures.

Questions to the Board

Does the Board agree with the staff recommendations as set out in paragraph 85 above?

If not, what does the Board wish to do, and why?

Summary of staff recommendations

No	Issue	Paragraph in paper	Transition relief proposed?	Staff recommendation
1	Classification	29	Yes – mandatory	Retrospective application, however assessment of ‘managed on a contractual yield basis’ - criterion at date of transition
2	Equity instruments at fair value through OCI	35	No	Full retrospective application
3	Available-for-sale financial assets	41	No	Full retrospective application
4	Hybrid contracts	see addendum to this agenda paper		
5	Fair value option	48	No	Assessment for designation and dedesignation required on date of transition, accounting consequences to be applied retrospectively
6	Effective interest rate	53	No	Full retrospective application
7	Impairment	61	Yes - mandatory	Prospective application of the impairment requirements, mandatory impairment calculation at the date of transition
8	Financial instrument measured at cost (less impairment)	65	Yes – mandatory	Prospective application of the fair value measurement requirement; difference to be recognised in profit or loss

IASB Staff paper

No	Issue	Paragraph in paper	Transition relief proposed?	Staff recommendation
9	Hedge accounting	70	Yes – mandatory	Retrospective application ; however dedesignations to be accounted for as discontinuations (ie, prospective)
10	IFRS 7 disclosures	78	No	Full retrospective application
11	Disclosures about transition if applied from effective date	82	N/A	No additional disclosures required (IAS 8 disclosures only)
12	Disclosures if guidance is early adopted	85	N/A	Comprehensive additional disclosures if guidance is early adopted – to be provided until all IFRS reporting entities apply the new guidance