Project **Financial Instruments: Replacement of IAS 39**

Topic **ED *Financial Instruments: Classification and Measurement* – Effective date**

Purpose of this paper

1. **This paper discusses the effective date requirements of an IFRS on classification and measurement of financial instruments.**

2. This paper provides:

   (a) a staff analysis on the mandatory effective date (including a staff recommendation); and

   (b) a staff analysis on early adoption and transition disclosures (including a staff recommendation).

3. **Our recommendation only relates to any final guidance on classification and measurement.** The effective dates and early application provisions for any other phases and projects are based on the staff's best estimate and are subject to change.

Staff analysis

Effective date

4. The exposure draft ('the ED') did not propose an effective date. However, some respondents to the ED asked the Board to allow sufficient lead time when setting an effective date. Main reasons mentioned were:

   (a) to allow all three phases to be implemented as one 'package'

(b) the proposals on some phases may require significant system changes (notably impairment)

(c) to align the effective date with the effective date of an IFRS arising from the insurance project (phase 2).

5. In selecting a mandatory effective date the Board also has to consider the time necessary for translation and the inclusion into legislation for some jurisdictions.

6. In addition, the Board needs to consider the number of countries that are adopting IFRS in the next few years, and the need to avoid them having to make two changes in a short period of time.

7. The Board usually sets an effective date between six and eighteen months after issuing an IFRS.

8. However, this is not possible because the replacement of IAS 39 is being completed in phases.

9. In the ED the Board indicated that the mandatory effective date of the final requirements will not be before 1 January 2012, so to allow entities to adopt the guidance from all three phases in one go.

10. At the 29 September 2009 additional meeting the Board has tentatively decided that the effective date of any final requirements on the impairment methodology to be used for financial assets measured at amortised cost is expected to be around three years from the date of issue of any final requirements. Assuming a final standard on impairment will not be issued before the end of 2010 it can be reasonably expected that the mandatory effective date will not be earlier than 1 January 2014.

11. In addition, the project on insurance (phase 2) currently plans to have a final standard issued by mid 2011. While there is clearly no decision on an effective date yet, it can reasonably be assumed that a mandatory effective date will not be before 1 January 2014. Agenda paper 12F of this meeting discusses further interaction of the project to replace IAS 39 with the insurance project.

12. Requiring a mandatory effective date of 2014 will also address many of the concerns expressed by countries that are adopting IFRSs for the first time.

13. We recommend that the Board requires a mandatory effective date of the final IFRS on classification and measurement of financial instruments of 1 January 2014. This would allow entities to adopt the guidance from all phases of the project to replace IAS 39 at the same time. In addition, assuming the effective date of a final IFRS on insurance accounting will be 1 January 2014, this would enable entities currently applying IFRS 4 *Insurance Contracts* to adopt both IFRSs at the same time. In addition, it will address the concerns of countries currently in the process of adopting IFRSs.

Effective date of final guidance
Does the Board agree with the staff recommendation to require a mandatory effective date of the finalised guidance on classification and measurement of financial instruments of 1 January 2014? If not, why and what does the Board wish to do, and why?

Early application

14. The ED proposed to permit entities to early adopt the final guidance. As indicated above, the ED is to be finalized in Q4/2009. The possibility to early adopt would enable entities to use the new guidance in their 2009 annual reports. It was one of the objectives of the ED and the phased approach to have improved guidance on classification and measurement in place for 2009 year ends.

15. Many respondents to the ED welcomed the proposals permit early application.

16. Those respondents generally also agreed with the required additional transition disclosures for early adopters as proposed in the ED. Others disagreed with the

proposed disclosures and noted they would be burdensome and potentially an impediment to early adoption.

17. However, many noted that such disclosures should be required from **all adopters** and should **not be limited** to early adopters. Some indicated that the disclosures required for the transition to the current version of IAS 39 has proven useful and should be required for all adopters instead of the proposals in the ED. We discuss this issue in agenda paper 12E on transition for this meeting. We recommend regardless of the set of transition disclosures chosen to require them for all adopters of the new guidance.

Staff recommendation

The staff recommends allowing for early application of any final IFRS on classification and measurement of financial instruments and to expand the transition disclosures (as set out in agenda paper 12E) to all entities adopting the final guidance.

Early application and disclosures
Does the Board agree with the staff recommendation to: (a) permit early application of the final IFRS (b) to require the transition disclosures (as set out in agenda paper 12E) by all entities adopting the new IFRS? If not, why and what does the Board wish to do, and why?