Project	**Financial instruments: Replacement of IAS 39**
Topic	**Sweep Issues for an exposure draft for the effective date of IFRS 9**

Background

1. At the 22 July 2011 meeting, the Board tentatively decided that:

   (a) The mandatory effective date of IFRS 9 should be changed to annual periods beginning on or after 1 January 2015,

   (b) Early application should continue to be permitted, and

   (c) They supported the staff recommendation that an exposure draft be issued with a comment period of a minimum of 60 days.[1]

2. In order to avoid the need to potentially issue another exposure draft related to IFRS 9 within a short period, the staff is bringing a sweep issue that is also time critical and, in addition, one smaller technical clarification.

3. Respondents to the Request for Views and participants in outreach have asked for an extension of the relief from restatement of comparatives, to the mandatory effective date of IFRS 9. Reasons specific to IFRS 9 that were identified as a basis for the request are the interaction between the date of initial application and:

   (a) the initial business model determination[2],

[1] See Agenda Papers 2 and 2A from the 22 July 2011 IASB-only meeting

[2] Paragraph 8.2.4 of IFRS 9 (2009) and paragraph 7.2.4 of IFRS 9 (2010)

(b) the fair value option and FVOCI elections at the date of initial application[3], and

(c) the fact that IFRS 9 must not be applied to items that have already been derecognised as of the date of initial application[4].

4. Respondents to the Request for Views also asked about the meaning of the term ‘reporting period’ as used in IFRS 9 —in particular they asked whether the date of initial application can be the beginning of an interim reporting period if the entity prepares interim financial statements in accordance with IAS 34, or whether it must be the beginning of an annual reporting period.

5. Some respondents requested that all phases of the project to replace IAS 39 should have the same transition requirements, and/or that it should have the same transition method as some or all of the other major projects.

Staff analysis and recommendation

Extension of comparative relief

6. Paragraph 7.2.12 of IFRS 9 (2010)[5] provides relief from restating comparatives. It states that an entity that adopts the IFRS for reporting periods beginning **before 1 January 2012** need not restate prior periods[6]. The Board’s view in the Basis for Conclusions[7] was that waiving the

[3] For all financial assets and liabilities designated under the fair value option, refer to paragraphs 7.2.7 and 7.2.8 of IFRS 9 (2009) (paragraphs 8.2.7 and 8.2.8 of IFRS 9 (2010); for financial liabilities only designated under the fair value option, refer also to paragraphs 7.2.9 and 7.2.13 of IFRS 9 (2010) (This requirement was not present in IFRS 9 (2009) because IFRS 9 (2010) added the chapters on financial liabilities.)

[4] Paragraph 8.2.1 of IFRS 9 (2009) and paragraph 7.2.1 of IFRS 9 (2010)

[5] Paragraph 8.2.12 of IFRS 9 (2009)

[6]If an entity does not restate prior periods, it should recognise any difference between the previous carrying amounts of financial instruments and their IFRS 9 carrying amounts as an adjustment to the opening retained earnings (or other component of equity, as appropriate) of the reporting period that includes the date of initial application.

[7] paragraph BC107 of IFRS 9 (2009) and Paragraph BC7.21 of IFRS 9 (2010)

requirement to restate comparatives strikes 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. However, the Board noted that these practicability considerations would be less applicable for entities that adopted outside a short time frame, and therefore restated comparative information was required if an entity adopts IFRS 9 for reporting periods beginning after 1 January 2012. The relief was provided very much in the context of enabling entities to early adopt IFRS 9 quickly, hence its limited term.

7. Entities have argued that there are unique reasons for relief from comparatives for those adopting IFRS 9. In particular, they note that because an entity does not know what financial instruments will be derecognised prior to the date of initial application[8], because their business model may change prior to the date of initial application and because they will only make their fair value option and FVOCI elections as at the initial application date it is difficult to prepare comparatives prior to the date of initial application.

8. The staff notes that in most cases entities should be able to determine their business model and to assess their anticipated elections prior to the actual date of initial application. Changes in business model are not anticipated to be common. The requirement to continue to apply IAS 39 does make the situation more difficult but this was introduced as a *concession* at the request of preparers.

9. The staff notes that the Board's rationale for its decision on comparative relief when issuing IFRS 9 has not been affected by changes in circumstances (ie unlike the mandatory effective date). Therefore, the staff

[8] Being the date that IFRS 9 is first applied.

recommends that no change should be made, and that the Board should ask a question on this in the upcoming exposure draft.

Question 1 – Extension of comparative relief
Does the Board agree with the staff that the Board should propose not to extend comparative relief to the mandatory effective date of IFRS 9? If not, what would the Board like to do and why?

The meaning of the term 'reporting period'

10. Paragraph 7.2.2 of IFRS 9 (2010)[9] states that for the purposes of the transition provisions in paragraphs 7.2.1 and 7.2.3–7.2.16[10], the date of initial application is the date when an entity first applies the requirements of IFRS 9. The date of initial application may be:

    (a) any date between the issue date of IFRS 9 and 31 December 2010, for entities initially applying this IFRS before 1 January 2011, or

    (b) the beginning of the first reporting period in which the entity adopts this IFRS, for entities initially applying this IFRS on or after 1 January 2011.

11. The Board discussed the date of initial application when it deliberated the transition requirements for IFRS 9. The staff believes that the Board intended the term 'reporting period' to include both annual reporting periods and interim reporting periods. The staff believes this is why paragraph 7.2.2(b) does not include the word 'annual'.

12. IFRS 9 does not explicitly state that the beginning of a reporting period can be the beginning of an interim period. However, the staff notes that paragraph 7.2.15[11] states that if an entity prepares interim financial reports in accordance with IAS 34 the entity need not apply the requirements in IFRS 9 to interim

[9] Paragraph 8.2.2 of IFRS 9 (2009)

[10] Paragraphs 8.2.3-8.2.13 of IFRS 9 (2009)

[11] Paragraph 8.2.13 of IFRS 9 (2009)

periods prior to the date of initial application if it is impracticable. If a reporting period were only able to be the beginning of an annual reporting period, it would not have been necessary to specify that prior interim periods are not required to be restated if impracticable, because there would be no interim periods prior to the date of initial application (the beginning of an annual reporting period).

13. **The staff believes it should be clarified in IFRS 9 that a 'reporting period' can be an interim reporting period if the entity prepares financial statements in accordance with IAS 34.**

Question 2 – Meaning of the term 'reporting date'
Does the Board agree with the staff recommendation to clarify that the phrase 'beginning of the first reporting period' can mean an interim reporting period? If not, why and what would the Board like to do and why?