

## STAFF PAPER

14 Nov – 18 Nov 2011

## REG IASB Meeting

Project	Financial instruments: Classification & measurement		
Paper topic	Targeted improvements to IFRS 9		
CONTACT(S)	Jeff Lark	jlark@ifrs.org	+44 (0)20 4246 6932
	Yulia Feygina	yfeygina@ifrs.org	+44 (0)20 4246 2743

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

**Background**

1. In November 2009, the Board published IFRS 9 *Financial Instruments* that provided new requirements for the accounting for financial assets. In October 2010, the Board added requirements for financial liabilities and transferred the derecognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement* to IFRS 9. The mandatory effective date for both versions of IFRS 9 is 1 January 2013 with early adoption permitted. However, in August 2011 the Board published the exposure draft *Mandatory Effective Date of IFRS 9* proposing to move the mandatory effective date of IFRS 9 back to 1 January 2015. This proposal was deliberated at an extra meeting on 7 November 2011.
2. Since the publication of IFRS 9, the Board has consistently stated that the interaction between IFRS 9 and the insurance contracts project will be considered once the insurance contracts model has been developed sufficiently<sup>1</sup>. The Board's deliberations on the exposure draft are now reaching a conclusion. Accordingly, we think this is an appropriate time to consider the interaction between the accounting for insurance contract liabilities and the accounting for financial assets backing insurance contracts.
3. The project to revise the accounting for financial instruments started as a joint project between the Board and the US Financial Accounting Standards Board

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<sup>1</sup> See the Basis for Conclusions to IFRS 9, paragraph BCIN.2

(FASB). The convergence efforts were complicated by the different project timetables established to respond to the boards' respective stakeholder groups, however the boards remain committed to achieving increased comparability internationally in the accounting for financial instruments. The FASB is now finalising the re-deliberations of the classification and measurement portion of its May 2010 proposed Accounting Standards Update (ASU) *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*. The Board has previously committed to seek feedback from its constituents on the FASB's classification and measurement model and to consider whether and what should be done to reconcile any differences.

4. Since the publication of IFRS 9, the Board has received feedback from constituents from various jurisdictions that have chosen to early adopt IFRS 9 or have started preparation for the adoption of IFRS 9. Generally the feedback has been positive and IFRS 9 has been found to be operational. However, some have raised concerns relating to specific instruments. In addition, some continue to express a preference for more fundamental changes to IFRS 9.

### **Purpose of this paper**

5. In this paper the staff assess whether the Board should initiate a review of IFRS 9.

### **Staff analysis**

6. The following paragraphs outline considerations in making the decision of whether the Board should make targeted improvements to IFRS 9.
7. **IFRS 9 is fundamentally sound** - The staff is of the view that the IFRS 9 classification and measurement model is based on sound conceptual principles and results in decision-useful information. We have also received feedback from constituents confirming that it is operational. A fundamental overhaul of IFRS 9 is thus not being proposed.
8. **Insurance contracts** – In the insurance contracts project, the July 2010 exposure draft proposed that insurance liabilities should be re-measured through profit and

loss. This proposal could cause an accounting mismatch if the assets held to back those insurance liabilities are measured at amortised cost. Furthermore, the Board has been exploring ways to present changes in the insurance contract liability in a way that disaggregates the effects of changes in the discount rate from other changes, such as by presenting changes in the insurance contract liability that arise from changes in the discount rate in OCI. As a result, the Board has received requests that it reconsider the accounting for financial assets (at least for assets backing insurance contracts) and that, in particular, further consideration should be given to remeasuring some financial assets through OCI rather than profit and loss. If the Board were to decide to make targeted improvements to IFRS 9, they could consider the interaction between insurance contract accounting and IFRS 9.

9. **Convergence** – The FASB is now finalising their re-deliberations of the classification and measurement of financial instruments. While the FASB’s redeliberations have resulted in them pursuing a mixed-measurement model where the classification of financial instruments is based both on the contractual terms of the instrument and the business model of the reporting entity, there are significant differences between the FASB’s model and IFRS 9. If the Board were to consider making targeted improvements to IFRS 9, consideration could be given to addressing differences with the FASB’s classification and measurement model as appropriate.
10. **Application issues** – Some constituents have already adopted or begun preparations to adopt IFRS 9. In their preparations, some of these constituents have raised application issues related to transition, and the classification of specific instruments. If the Board were to decide to make targeted improvements to IFRS 9, the experience of early adopters and those who have started the preparation for adoption could be used to refine and improve IFRS 9 before it becomes mandatorily applicable. The staff are of the view that while some of the issues raised to date could only be addressed by making changes to IFRS 9, many of the issues raised are in the nature of clarifications.
11. **Early adopters** – Entities in some jurisdictions have already applied IFRS 9. Many others have devoted significant resources in preparation for IFRS 9. The staff is sympathetic to the significant resources these constituents have devoted in

transitioning or preparing to transition to IFRS 9. Hence if the Board were to decide to consider making improvements to IFRS 9, the staff believes that the Board should seek to minimise the cost and disruption for these constituents where possible.

12. **Timing** – If a decision is made to make changes to IFRS 9 the staff are of the view that we should avoid an open-ended timeline. It is important that any changes to the IFRS 9 classification and measurement model are undertaken expeditiously to enable IFRS 9 as a whole to be completed and for it to be available for application in its entirety. This is particularly true given that the general hedge accounting phase is close to completion and that our constituents are keen for us to finalise the impairment improvements as soon as possible.

**Staff recommendation**

13. The staff recommends that the Board consider making improvements to IFRS 9, in particular, to consider the interaction with the insurance contracts project. This will also enable us to consider the FASB’s classification and measurement model. However, the staff recommend that any changes be as targeted as possible to minimise potential disruption to those who have already applied or are close to applying IFRS 9 and in order to assist in timely completion of the project.

<b>Question to the Board</b>
Does the Board agree with the staff recommendation to consider making targeted improvements to IFRS 9?