# STAFF PAPER

**Week beginning 16 July 2012**

**REG IASB Meeting**

| **Project** | **Financial Instruments: Classification and Measurement** | | |
|---|---|---|---|
| Paper topic | Other transition issues | | |
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## Purpose and scope of the paper

1. This paper focuses on *when* the proposed limited modifications to the classification and measurement (C&M) requirements in IFRS 9 *Financial Instruments* (the limited modifications) should be initially applied and related issues[1]. In doing so, it considers the interaction between the limited modifications, the soon-to-be-issued new hedge accounting requirements and impairment proposals[2] and addresses the interrelated transition issues for IFRS 9 as a whole, specifically:

    (a) Early application of IFRS 9 by entities already applying IFRSs (paragraphs 3-35),

    (b) Presentation of comparative information (paragraphs 36-40), and

    (c) Application of IFRS 9 by first-time adopters of IFRSs (paragraphs 41-44).

2. These topics are considered in the context of the existing transition requirements in IFRS 9 and the general approach to changes in accounting policies set out in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* The paper provides staff analysis and

[1] Agenda Paper 6 also presented to the Board at this meeting provides an overview of the proposed limited modifications to IFRS 9 and addresses *how* they should initially be applied.

[2] The proposed transition provisions for the new impairment model as well as the basis for those proposals are discussed in Agenda Paper 5G also presented to the Board at this meeting.

recommendations and asks the Board for decisions. Appendix A provides a summary of the transition requirements discussed in this paper.

## Early application of IFRS 9 by entities already applying IFRSs

3. This section discusses early application of IFRS 9 by entities already applying IFRSs. It considers the interaction between the phases of IFRS 9 and specifically addresses the following topics:

    (a) Fair value option for early appliers

    (b) *Phased* early application of IFRS 9

    (c) Early application of *some*, but *not all*, of the limited modifications to IFRS 9

    (d) Early application of the *entire* IFRS 9 (ie all phases) upon its completion

### *Background*

4. The Board often permits early application of new requirements. Effective dates are set in order to enable all entities to apply new requirements within that time frame; however, some entities may be able to apply them sooner, and in many cases the Board sees no reason to delay improved financial reporting for those entities.

5. Early application generally does not affect the ability of users of financial statements to compare the financial statements of an entity over time to identify trends in its financial position, financial performance, or cash flows, the importance of which is noted in paragraphs 14 and 15 of IAS 8. However, early application does affect comparability between entities and the longer the period between the publication of a standard and its effective date, the more relevant this consideration.

6. The Board issued the first chapters of IFRS 9 in November 2009 (IFRS 9 (2009)). These chapters set out the requirements for C&M of financial assets. In October 2010 the Board

added the chapters on C&M of financial liabilities (IFRS 9 (2010))[3]. The Board decided to permit early application both of the C&M requirements of IFRS 9 (2009) and of IFRS 9 (2010). IFRS 9 (2010) was drafted to include the IFRS 9 (2009) requirements for C&M of financial assets - so an entity cannot early apply the C&M model for financial liabilities without also early applying the C&M requirements for financial assets. In order to address the reduced comparability between entities that apply the C&M requirements in IFRS 9 and IAS 39, respectively, IFRS 7 *Financial Instruments: Disclosures* requires disclosures about the transition to IFRS 9. Besides, if an entity applies IFRS 9 early, it is required to disclose this fact.

### *Fair value option for early appliers*

7. As discussed in Agenda Paper 6B, the existing transition provisions in IFRS 9 provide a 'clean slate' for the fair value option (FVO) for accounting mismatches for both financial assets and financial liabilities at the date of initial application of C&M requirements for *financial assets*. That is, when the IFRS 9 C&M requirements for financial assets are initially applied, entities are *both*:

   (a) ***Permitted* to revisit their FVO elections for accounting mismatches for both financial assets and financial liabilities**, ie to elect to apply the FVO even if an accounting mismatch already existed before the date of initial application and/or revoke the FVO even if an accounting mismatch continues to exist; *and*

[3] The Board has carried forward into IFRS 9 the C&M requirements for financial liabilities from IAS 39 *Financial Instruments: Recognition and Measurement* and added the requirement to present in other comprehensive income (OCI) the changes in the fair value of a financial liability attributable to the changes in the liability's own credit risk for financial liabilities designated under the fair value option. This version of IFRS 9 also includes derecognition requirements that were carried forward into IFRS 9 from IAS 39 unchanged.

(b) ***Required* to revoke their FVO elections for accounting mismatches for both financial assets and financial liabilities** if an accounting mismatch no longer exists at the date of initial application[4].

8. As stated above, the clean slate for the FVO for accounting mismatches is only available to entities *once*–ie when they initially apply the IFRS 9 C&M requirements for *financial assets*.[5] This is because the C&M model for financial assets – but not financial liabilities – fundamentally changes at the date of initial application of IFRS 9 and that gives rise to changes in accounting mismatches and consequently eligibility for the FVO. In practical terms, entities that apply IFRS 9 (2009) before IFRS 9 (2010) will not have the FVO clean slate at the date of initial application of IFRS 9 (2010). However entities that apply IFRS 9 (2010) and have not applied IFRS 9 (2009) will have the FVO clean slate at the date of initial application of IFRS 9 (2010).

9. Accordingly, entities that apply IFRS 9 (2009) and/or IFRS 9 (2010) *before* they apply the limited modifications to IFRS 9 will have already applied the FVO clean slate. However, the application of the modified C&M requirements will cause the measurement attribute of some financial assets to change, and consequently accounting mismatches will also change. The Board therefore needs to consider whether entities that have already early applied IFRS 9 (2009) or/and IFRS 9 (2010) need specific transition guidance in relation to accounting mismatches and the related FVO at the time of the initial application of the limited modifications to IFRS 9.

10. The staff note that permitting entities to again revisit *all* their FVO elections would undermine the irrevocable nature of these elections. However, the staff also note that the reason why the FVO is generally only available at initial recognition and is irrevocable so that entities are unable to 'cherry pick' their FVO designations to achieve a desired result in profit or loss (P&L). The staff do not think that the 'cherry picking' concern would be

[4] IFRS 9 (2010) paragraphs 7.2.7-7.2.9

[5] The staff are not proposing any change to the FVO clean slate for those who newly apply IFRS 9 post the limited modifications.

relevant if the Board permitted these entities to apply the FVO only to *new* accounting mismatches created by the initial application of the limited modifications.

11. Additionally, not *requiring* entities to revoke their FVO elections when the C&M of financial assets changes and an accounting mismatch no longer exists would result in one-sided P&L effects, potentially for a long period of time, until the position that *continues* to be fair valued is derecognised. The staff believe that would not result in useful information.

**12.** Accordingly, **the staff recommend that entities that have already initially applied IFRS 9 (2009) and/or IFRS 9 (2010) before they apply the limited modifications to IFRS 9:**

**(a)** **are *required* to revoke previous FVO elections if an accounting mismatch *no longer exists* at initial application of the modified C&M requirements and are not permitted to revoke previous FVO elections if an accounting mismatch continues to exist; and**

(b) **are *permitted* to apply the FVO to *new* accounting mismatches that are created by the initial application of the modified C&M requirements but are not permitted to apply the FVO to accounting mismatches that already existed before the initial application of the modified C&M requirements.**

13. As a result, entities will continue to have *only one clean slate* for the FVO for accounting mismatches−that is, *when the IFRS 9 C&M requirements for financial assets are initially applied*. Entities that apply IFRS 9 (2009) and/or IFRS 9 (2010) *before* they apply the limited modifications to IFRS 9 would only revisit their FVO elections to the extent that accounting mismatches change due to the application of the modified C&M requirements.

| **Question 1 for the Board** |
| --- |
| Does the Board agree with the staff recommendation in paragraph 12<br><br>(i) to require entities that have already initially applied IFRS 9 (2009) and/or IFRS 9 (2010) before they apply the limited modifications to IFRS 9 to revoke previous FVO elections if an accounting mismatch no longer exists at initial application of the modified C&M requirements; and |

(ii) to permit them to apply the FVO to new accounting mismatches created by the initial application of the modified C&M requirements?

### *Phased early application of IFRS 9*

14. As stated above, entities are currently permitted to early apply either IFRS 9 (2009) or IFRS 9 (2010). In September 2011, the Board tentatively confirmed the hedge accounting ED's[6] proposal that early application of the hedge accounting requirements of IFRS 9 would be permitted if all existing requirements of IFRS 9 (ie, IFRS 9 (2010)) were also applied. The reasons for this tentative decision were:

    (a) To ensure consistency with previous decisions, that later phases of the project can only be early applied if earlier phases are also early applied, and

    (b) The fact that the hedge accounting model was designed to be applied with the IFRS 9 (2010) C&M requirements.[7]

15. Accordingly, the following packages will be available for early application once the hedge accounting requirements are added to IFRS 9:

    (a) C&M of financial assets (IFRS 9 (2009))

    (b) C&M of financial assets *and* financial liabilities (IFRS 9 (2010))

    (c) C&M of financial assets and financial liabilities *and* hedge accounting (IFRS 9 (2012)).

16. As the lead time for the application of the new impairment model is typically expected to be longer than that for C&M this analysis (other than the comments on comparability that would be relevant also in that situation) focuses primarily on the considerations in allowing C&M to

[6] Exposure Draft ED/2010/13 *Hedge Accounting*

[7] Paragraph BC247 of the hedging ED

be applied prior to impairment. It is also implicit in the discussion that the anticipated time to completion for C&M and impairment would not be significantly different.

17. There would be some advantages in allowing early application of IFRS 9 C&M with the limited modifications, prior to impairment. This may allow the new C&M model (including the limited modifications) to be applied more quickly because and entity would not need to be in a position to also apply the impairment model. It would also prevent those who wish to early apply the new hedge accounting requirements from having to apply the current C&M requirements in IFRS 9 (2010) that are subject to modification.[8] However, it is noted that this latter consideration is probably less relevant to corporates, who would generally be less affected by changes in the C&M model.

18. The staff note that, combined with the continuing existence of IAS 39, there will be four sets of accounting requirements for financial instruments available to be applied once the hedge accounting requirements are added to IFRS 9. The staff question whether the benefits of phased early application of *additional* chapters of IFRS 9 (ie impairment and the limited modifications) as they are finalised and published would outweigh the disadvantage of reduced comparability between entities. If the Board continued to allow phased early application of additional chapters as they are published, that **would increase the number of versions of IFRS 9 available for early application at a given point in time** which could significantly undermine comparability between entities. Besides, that could also undermine comparability between periods for a single entity if the entity chose to early apply each new set of requirements as the requirements are published and did not restate comparative information[9]. In addition, the staff note that the limited modifications to IFRS 9 have been developed in the context of the tentative decisions made in the Impairment project.

[8] This consideration is lessened if the Board follows the staff recommendation in the next section.

[9] Entities that adopt a version of IFRS 9 on or after 1 January 2013 are permitted, but not required, to restate comparative information for C&M requirements. The soon-to-be-issued hedge accounting requirements is generally prospective so they generally would not result in the restatement of comparatives, subject to specific exceptions. Finally, the staff recommend in Agenda Paper 5G also presented to the Board at this meeting to prohibit restatement of comparative information for the new impairment requirements. Presentation of comparative information is discussed in detail in paragraphs 36-40.

Specifically, the FVOCI measurement category requires the application of the same impairment and interest income recognition model that is applied to financial assets measured at amortised cost. That, combined with recycling, results in amortised cost information in P&L for financial assets measured at FVOCI which provides useful information for financial assets managed within a business model whose objective is to both hold to collect contractual cash flows and sell financial assets. Consequently, the staff question whether the application of the FVOCI measurement category introduced by the limited modifications in isolation from the new impairment model would provide useful information.

19. On balance, the staff believe that **the modification to the business model assessment introduced by the limited modifications to IFRS 9 should not be applied before the new impairment model is applied**.

20. For the reasons discussed above, **the staff recommend that *phased* early application of limited modifications to IFRS 9 and the new impairment model is not allowed**. That would result in the following packages to continue to be available for early application once the hedge accounting requirements are added to IFRS 9:

(a) C&M of financial assets (IFRS 9 (2009))

(b) C&M of financial assets *and* financial liabilities (IFRS 9 (2010))

(c) C&M of financial assets and financial liabilities *and* hedge accounting (IFRS 9 (2012)).

| **Question 2 for the Board** |
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| Does the Board agree with the staff recommendation in paragraph 20 that phased early application of limited modifications to IFRS 9 and the new impairment model should not be allowed? |

### ***Early application of some, but not all, of the limited modifications to IFRS 9***

21. The analysis above considered phasing of the application of the entire limited modifications to C&M. As discussed in paragraph 18, the proposed modifications to the business model assessment have been designed to be applied with a consistent impairment model for financial assets measured at amortised cost and FVOCI and therefore limited modifications to IFRS 9 and the new impairment model are best applied together *as a package*. However, the staff believe that the Board should consider separating the proposed modification to the contractual cash flow characteristics assessment ('modified characteristics assessment') from the other limited modifications to IFRS 9 and incorporating the modified characteristics assessment into each version of IFRS 9 available for early application at the time the limited modifications are published. That would result in the following packages available for early application[10]:

*Limited modifications to IFRS 9 are published*

| *Before* | *After* |
|---|---|
| a) C&M of financial assets (IFRS 9 (2009)) | a) C&M of financial assets *including* modified characteristics assessment (ie amended IFRS 9 (2009)) |
| b) C&M of financial assets *and* financial liabilities (IFRS 9 (2010)) | b) C&M of financial assets *and* financial liabilities *including* modified characteristics assessment (ie amended IFRS 9 (2010)) |
| c) C&M of financial assets and financial liabilities *and* hedge accounting | c) C&M of financial assets and financial liabilities *including* modified characteristics assessment *and* hedge |

[10] Assuming that hedge accounting requirements are finalised and published before limited modifications to IFRS 9.

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22. The staff note that such an approach **would not result in an increased number of versions of IFRS 9 available for early application at a given point in time.** Those who have not previously applied a version of IFRS 9 would only have available the 'after' versions of the document in the schedule above. The staff consider this approach to be appropriate for the following reasons:

    (a) The proposed modification to the contractual cash flow characteristics assessment is designed to address application questions from constituents. Hence incorporating the modification into the versions of IFRS 9 available for application at the time the limited modifications are published would help to ensure consistency of application and comparability across entities.

    (b) The proposed modification clarifies the principle that already exists in IFRS 9. Therefore, *from a conceptual standpoint*, the clarification should be applied together with the principle.

    (c) There is little interaction[11] between the modified characteristics assessment and an expected loss impairment model so **the modified characteristics assessment can be applied before a new impairment model is applied**.

23. Accordingly, **the staff recommend that the modification to the contractual cash flow characteristics assessment should be incorporated into the versions of IFRS 9 available for early application at the time the limited modifications are published**.

24. The staff believe however that entities that have already applied a version of IFRS 9 *before* the limited modifications are published should *not* be required to immediately apply the modified characteristics assessment. Rather, they should be allowed to continue to apply the version of IFRS 9 they have been applying until the mandatory effective date of the entire IFRS 9.

[11] There is some in that the cash flow characteristics criteria along with business model determine what is subject to impairment accounting.

25. The staff acknowledge that different requirements for early appliers on the basis of *when* a version of IFRS 9 is initially applied (ie before or after the limited modifications are published) would result in decreased comparability between entities. However the staff believe that this concern is outweighed by the following considerations:

    (a) The proposed modification to the contractual cash flow characteristics assessment clarifies the principle that already exists in IFRS 9 and represents a *minor* amendment to how the principle should be applied in particular circumstances (although for some entities it may have a material effect). The staff therefore do not think that application of the principle pre versus post clarification would significantly undermine comparability in most cases.

    (b) To require otherwise would disadvantage entities that have already early applied IFRS 9 as they would be forced into an *extra* transition to IFRS 9 compared to what they would have anticipated and compared to those entities that choose to early apply IFRS 9 *after* the limited modifications are published. The staff note that the Board has always stated that it would be mindful of entities that have chosen to early apply IFRS 9 and would not put them into a disadvantaged position.

    (c) Finally, IAS 8 requires disclosure about initial application of an IFRS[12]. In addition, IFRS 9 requires that an entity discloses the fact of early application of the Standard[13]. Therefore users of the financial statements would be informed as to what version of IFRS 9 the entity is applying.

26. Accordingly, **the staff recommend that entities that have already been applying a version of IFRS 9 before the limited modifications are published should be allowed to continue to apply that version until the effective date of IFRS 9**.

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[12] IAS 8 paragraph 28

[13] IFRS 9 (2010) paragraph 7.1.1

27. Final observations for entities that have already been applying a version of IFRS 9 before the limited modifications are published:

(a) If an entity that already applied a version of IFRS 9 before the limited modifications are published chooses to early apply *further* chapters after the limited modifications are published, that entity would fall in the scope of the staff recommendation in paragraph 23. That is, *any* entity that chooses to early apply a version of IFRS 9 after the limited modifications are published would be required to apply *that* version including the modified characteristics assessment.

(b) Likewise, after the limited modifications are published, an entity that already applied a version of IFRS 9 before the limited modifications are published could choose to early apply *that* version *including* the modified characteristics assessment. That is because such version would be available for early application after the limited modifications are published (refer to figure in paragraph 21) to *all* entities, ie both those that have already been applying IFRS 9 and those that haven't.

(c) An entity that has already been applying a version of IFRS 9 before the limited modifications are published could find itself changing C&M models for financial assets three times. First, when it applies a version of IFRS 9 available for early application before the limited modifications are published. Second, when it applies a version of IFRS 9 available for early application after the limited modifications are published, ie including the modified characteristics assessment. Third, when it applies the entire IFRS 9, ie including the modification to the business model assessment. That could cause the accounting mismatches – and hence the eligibility for the FVO – to change up to three times as well. Consistent with the staff recommendation in paragraph 12, an entity would only have a clean slate for the FVO for accounting mismatches once when IFRS 9 C&M requirements for financial assets are first applied. On *each* subsequent change of C&M, the entity would have to revoke the FVO for accounting mismatches that no longer exist and be permitted to apply the FVO to new accounting mismatches.

28. To summarise, if the Board agrees with the staff recommendation, the following options would be available for an entity that has been applying a version of IFRS 9 *before* the limited modification are published versus an entity that initially early applies a version of IFRS 9 *after* the limited modifications are issued:

| **Already early applying a version of IFRS 9 *before* the limited modification are issued** | **Initially early applying a version of IFRS 9 *after* the limited modification are issued** |
|---|---|
| a) *Continue* to apply the version of IFRS 9 that the entity has been applying, ie *not including* the modified characteristics assessment;<br>b) Choose to early apply the *equivalent* version *including* the modified characteristics assessment;<br>c) Choose to early apply a *later* version *including* the modified characteristics assessment. | a) Choose to early apply *any* version available for early application *including* the modified characteristics assessment. |

| Questions 3 and 4 for the Board |
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| Question 3:<br><br>Does the Board agree with the staff recommendation in paragraph 23 that the modification to the contractual cash flow characteristics assessment should be incorporated into the versions of IFRS 9 available for early application at the time the limited modifications are published?<br><br>Question 4:<br><br>If the answer to Question 3 is yes, does the Board agree with the staff recommendation in paragraph 26 that entities that have already been applying a version of IFRS 9 before the limited modifications are published should be allowed to continue to apply that version? |

### *Early application of the entire IFRS 9 (all phases)*

29. The staff believe that the Board should also consider permitting early application of the *entire* IFRS 9 (ie C&M for financial assets and financial liabilities including the limited modifications, hedge accounting and impairment requirements). That would result in the following versions of IFRS 9 being available for early application[14]:

*Before* | *Limited modifications to IFRS 9 are published* | *After*

[14] As per the staff recommendation in paragraph 26, entities that have already applied a version of IFRS 9 before the limited modifications are published will be able to continue to apply that version until the mandatory effective date of IFRS 9.

| | |
|---|---|
| a) C&M of financial assets (IFRS 9 (2009)) | a) C&M of financial assets including modified characteristics assessment (ie amended IFRS 9 (2009)) |
| b) C&M of financial assets *and* financial liabilities (IFRS 9 (2010)) | b) C&M of financial assets *and* financial liabilities including modified characteristics assessment (ie amended IFRS 9 (2010)) |
| c) C&M of financial assets and financial liabilities *and* hedge accounting | c) C&M of financial assets and financial liabilities including modified characteristics assessment *and* hedge accounting |
| | d) The entire IFRS 9 |

30. The staff note that early application of the entire IFRS 9 doesn't give rise to many additional concerns about comparability nor does it give rise to concerns regarding the interaction of the phases. Besides, permitting early application of the entire IFRS 9 would be consistent with the Board's rationale for permitting early application of previous chapters/phases. That is, entities would have the benefit of the improved accounting for financial instruments quicker. This is also consistent with the feedback from constituents who indicate they wish to apply the improved requirements as soon as possible, notably the requirement for financial liabilities designated at FVPL to present in other comprehensive income the changes in fair value attributable to changes in the liability's credit risk.

31. If the Board were to permit early application of the entire IFRS 9, the Board needs to consider the interaction of IFRS 9 with other recently issued IFRSs and ongoing projects.

32. The staff have considered and have not identified any issues related to the interaction of the early application of IFRS 9 with other recently issued IFRSs. The staff note that IFRS 10

*Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* along with the amendments to IAS 27 *Consolidated and Separate Financial Statements* and IAS 28 *Investments in Associates* as well as IFRS 13 *Fair Value Measurement* are all effective on 1 January 2013. Therefore, IFRS 9 as a whole will be applied in the context of these recently issued standards regardless of whether it is applied early or not.

33. The staff note that there is a degree of interaction between IFRS 9 and other ongoing projects, notably the Insurance Contracts project. However the staff do not think that the interactions are such that it should prevent entities having a right to elect early application of IFRS 9. The staff note that ultimately the Board will need to be mindful of the mandatory effective dates of IFRS 9 relative to other standards (particularly for the Insurance Contracts project).

34. As a final observation, the staff note that many entities (notably financial institutions) will require significant lead time to implement the new impairment model and are therefore are not likely to choose to early apply the entire IFRS 9. However entities that will not be significantly affected by the new impairment proposals may choose to apply the standard early.

35. For the reasons stated above, **the staff recommend that the Board should permit early application of the *entire* IFRS 9.**

| **Question 5 for the Board** |
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| Does the Board agree with the staff recommendation in paragraph 35 that early application of the entire IFRS 9 (ie C&M of financial assets and financial liabilities including the limited modifications, hedge accounting and impairment requirements) should be permitted? |

## Comparative financial statements

36. This section addresses the presentation of comparative information by entities that apply a version of IFRS 9 *after* the limited modifications are published.

37. The existing requirements and the current proposals on the presentation of comparative information for the phases of IFRS 9 are as follows:

    (a) If an entity applies the C&M requirements in IFRS 9 (2009) or/and IFRS 9 (2010) on or after 1 January 2013[15], the entity is *permitted but not required to restate* comparative information[16].

    (b) The Board has tentatively decided that the general hedge accounting requirements of IFRS 9 will generally be prospective from the date of initial application with limited exceptions.[17] So, restatement of comparative information is generally not relevant.

    (c) The staff recommend in Agenda Paper 5G, also presented to the Board at this meeting, that the restatement of the comparative information for impairment should be *prohibited*[18].

38. Therefore, if the Board follows the staff's recommendation to prohibit restatement of comparatives on transition to the new impairment model, when an entity applies the *entire* IFRS 9 (ie including the modifications to the business model assessment and the new impairment model), the interaction between the existing IFRS 9 transition requirements and the transition proposals in the Impairment project *could* result in presentation of comparative C&M information under IFRS 9 and comparative impairment information under IAS 39. This is because an entity currently may choose, but is not required, to restate comparative C&M information.

[15] The requirements for the presentation of comparative information are different for entities that apply these IFRSs before 1 January 2013. However these requirements are not relevant for the discussion of initial application of the limited modifications because they will not be finalised and published before that date according to the current project plan.

[16] IFRS 9 (2009) paragraph 8.2.12, IFRS 9 (2010) paragraph 7.2.14. An entity is required to meet the transition disclosure requirements in IFRS 7, paragraphs 12B-12D.

[17] Retrospective application will be required for the time value of options designated on an intrinsic value basis, and permitted on an all-or-nothing basis for the accounting for forward elements of contracts designated on a spot basis. For additional detail, refer to Agenda Paper 15 from the September 2011 IASB meeting.

[18] Paragraphs 47-53 of that paper provide the basis for that recommendation.

39. However, as discussed in paragraph 18, the proposed modifications to the business model assessment have been designed to be applied with a consistent impairment model for financial assets measured at amortised cost and FVOCI and therefore those modifications and the new impairment model are best applied together. Accordingly, if the Board agrees with the staff recommendation in Agenda Paper 5G to prohibit restatement of comparative information under the impairment model, **the staff recommend that the Board should prohibit restatement of comparative C&M information when an entity initially applies the entire IFRS 9.**

40. The staff note that this would result in the following outcomes on initial application of the entire IFRS 9:

    (a) An entity that has not early applied an earlier version of IFRS 9 would present comparative information under C&M, hedge accounting[19] and impairment requirements as per IAS 39;

    (b) An entity that has early applied IFRS 9 (2009), (2010) or (2012) may (but is not required to) present comparative information that is restated to reflect the C&M requirements. The comparative information would not be restated to reflect the further requirements of IFRS 9 applied at the time the *entire* IFRS 9 is applied.

| Question 6 for the Board |
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| Does the Board agree with the staff recommendation in paragraph 39 to prohibit restatement of comparative C&M information when an entity initially applies IFRS 9 entirely? |

[19] With some narrow exceptions as previously noted.

## First-time adopters

41. Generally, that staff believe that IFRS 9 transition provisions for entities that apply IFRSs for the first time should be the same as for entities already applying IFRSs. However, the staff acknowledge that there are unique considerations for first-time adopters that arise due to the interaction of IFRS 1 *First-time Adoption of International Financial Reporting Standards* with the proposed approach to presentation of comparative information under IFRS 9[20].

42. Specifically, IFRS 1 requires the first IFRS financial statements, *including the comparative information* (ie from T-2 to T0 on the figure below), to be prepared under consistent accounting policies that must comply with each IFRS effective *at the end* of the first IFRS reporting period (T0 on the figure below).

T-2 (date of transition to IFRSs) — T-1 (the end of comparative period) — T0 (the end of first IFRS reporting period)

43. IFRS 9 applies to annual periods beginning on or after 1 January 2015. Therefore, a first-time adopter that prepares its first IFRS financial statements for the calendar year 2015 would be *required* to reflect IFRS 9 in their financial statements from 1 January 2014 (ie for both reporting and comparative years). In contrast, an entity that already applies IFRSs would only be required to apply IFRS 9 from 1 January 2015 if the Board follows the staff recommendation and the restatement of comparative information under IFRS 9 is not allowed for existing preparers.

44. The staff believe that the Board will need to consider transition to IFRS 9 for first-time adopters once the re-deliberations of the limited modifications to IFRS 9 and the Impairment

[20] Refer to paragraphs 36-40 of this paper and paragraphs 47-53 of Agenda Paper 5G. The soon-to-be-issued hedge accounting requirements is generally prospective so they generally would not result in the restatement of comparatives, subject to specific exceptions.

project progress sufficiently to make sure that first-time adopters of IFRSs are given sufficient lead time for the adoption of IFRS 9 and are not disadvantaged compared to existing preparers. Until that time, if a first-time adopter of IFRSs chooses to early apply an available version of IFRS 9, it would follow the current requirements in IFRS 1 that relate to IFRS 9[21].

[21] These provisions will require IFRS 9 to be applied as at T-2 in the diagram above.

## Appendix A: summary of transition to IFRS 9 <u>after</u> the limited modifications are published based on the existing requirements and staff recommendations[22]

| | Entities that <u>have not early applied</u> a phase of IFRS 9 at the time the limited modifications are published can choose to: | | Entities that <u>have already early applied</u> a phase of IFRS 9 at the time the limited modifications are published can choose to: | |
|---|---|---|---|---|
| | Apply the entire IFRS 9, ie all phases on or before IFRS 9 effective date | Early apply a phase[23]<br>- C&M of FA or/and<br>- C&M of FA and FL or/and<br>- C&M of FA and FL and hedge accounting<br>NB: all include modified characteristics assessment but none includes modified business model assessment or impairment | Apply all the *remaining* requirements of IFRS 9 at the same time on or before IFRS 9 effective date | - Continue to apply the pre-modifications phase<br>- Upgrade *that* phase to modified characteristics assessment<br>- Apply a later phase (including modified characteristics assessment)<br>NB: none includes modified business model assessment or impairment |
| Initial application of limited modifications | All new requirements initially applied at the same time | - Modified characteristics assessment always applies<br>- Modified business model assessment only applies when the entire IFRS 9 is applied | Continue to apply the pre-modifications phase until *all remaining* requirements applied | Once change to a newer version of IFRS 9 *modified characteristics assessment* applies (modified business model assessment only applies when the entire IFRS 9 is applied) |
| Comparative information | Under IAS 39 (no restatement) | Restatement permitted (but not required) for C&M requirements only | As presented in prior year[24] (no restatement) | Restatement permitted (but not required) for C&M requirements only |
| Fair value option for accounting mismatches for FA and FL | Clean slate on initial application of IFRS 9 | - Clean slate when first apply <u>any</u> part of IFRS 9<br>- Re-designation for changes in C&M due to application of the *modified business model assessment* when the <u>entire</u> IFRS 9 applied | - Clean slate when first apply <u>any</u> part of IFRS 9<br>- Re-designation for changes in C&M due to application of the *limited modifications* when the <u>entire</u> IFRS 9 applied | - Clean slate when first apply <u>any</u> part of IFRS 9<br>- Re-designation for changes in C&M due to application of *modified characteristics assessment* once change to a <u>newer</u> version of IFRS 9<br>- Re-designation for changes in C&M due to application of the *modified business model assessment* when the <u>entire</u> IFRS 9 applied |

[22] Appendix A only addresses existing IFRS preparers. As stated in paragraph 44, the staff believe that the Board will need to consider transition to IFRS 9 for first-time adopters at a future date once the re-deliberations of the limited modifications to IFRS 9 and the Impairment project progress sufficiently.

[23] Later phases of IFRS 9 can only be early applied if earlier phases are also early applied. However an entity may choose to early apply an earlier phase but not to early apply later phases.

[24] Under IAS 39 and the phase of IFRS 9 that has already been applied.