

## STAFF PAPER

Week beginning 24 September 2012

## REG IASB Meeting

Project	Financial Instruments: Classification and Measurement and Impairment		
Paper topic	Additional issues for transition to IFRS 9 as a whole		
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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*.

## Purpose of the paper

1. This paper addresses two additional transition issues related to the limited amendments to IFRS 9, and one related issue for impairment. These issues are:
  - (a) Whether, in the period in which the classification and measurement (C&M) chapters of IFRS 9 are initially applied, the following disclosures should be required:
    - (i) line item amounts that would have been reported in accordance with IFRS 9 for prior periods (paragraphs 6-7), and/or
    - (ii) line item amounts that would have been reported in accordance with IAS 39 for the current period (paragraphs 8-16).
  - (b) If the IASB agrees with the staff recommendation on issue (a), whether the IASB would like to revise its tentative decision to require current-period transition disclosures for impairment (paragraphs 17-33)<sup>1</sup>; and

<sup>1</sup> In July 2012, the IASB tentatively decided that the disclosures in paragraph 28(f) of IAS 8 should be required in the current period. The IASB was not interpreting this requirement but did intend to require disclosure of the line item amounts that would have been reported in accordance with the IAS 39 impairment model during the current period in which the new impairment model is initially applied.

- (c) Whether, after IFRS 9 is finalised and becomes the only version of IFRS 9 available for early application, previous versions of IFRS 9 should **immediately** cease to be available for early application, or whether the IASB should instead allow lead time before the revised early application provisions become effective (paragraphs 34-38)<sup>2</sup>.

These issues are discussed in greater detail in the following sections.

## Line item disclosures at transition

### Introduction

2. When the initial application of an IFRS has an effect on the current period or on any prior period, paragraph 28(f) of IAS 8 requires an entity to disclose, for the current period and for each prior period presented, the amount of the adjustment for each financial statement line item affected. The IASB noted that it was not modifying the requirements of IAS 8 when it amended the effective date and transition disclosures for the C&M chapters of IFRS 9 in December 2011. However, the staff note that at the time the IASB did not discuss **in detail** the interaction with IAS 8.
3. However, as has previously been brought to the IASB's attention, there are different views as to what IAS 8 requires. Constituents have asked us whether this paragraph requires disclosure of the line item **amounts** that would have been reported in accordance with the other accounting policy—ie:
  - (a) in accordance with the new IFRS for prior periods if they are not required to be restated, and
  - (b) in accordance with the previous accounting policy for the current period.
4. These questions are being addressed more broadly by the ongoing project on effective dates and transition methods and are beyond the scope of this paper. However, at this meeting, we

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<sup>2</sup> In July 2012, the IASB tentatively decided that once IFRS 9 is finalised, entities should no longer be permitted to early apply previous versions of IFRS 9. Rather, entities will only be permitted to early apply IFRS 9 in its entirety. Those entities that—prior to the publication of the complete version of IFRS 9—already early applied a previous version of IFRS 9 would be able to continue applying that version and not be required to apply the final requirements until the mandatory effective date.

ask the IASB for permission to draft and ballot an Exposure Draft of the limited amendments to IFRS 9<sup>3</sup>, and we think that document should clearly set out the disclosures required upon initial application of the new C&M requirements for financial instruments. Consequently, in this section of the paper the staff present analysis of whether, in the period in which IFRS 9 is initially applied, the IASB should require disclosure of the line item amounts that would have been reported:

- (a) in accordance with IFRS 9 for prior periods and/or
  - (b) in accordance with IAS 39 for the current period.
5. In doing so, the staff consider the interaction between the C&M, impairment and hedge accounting phases of the project to replace IAS 39.

#### **Prior-period disclosures for C&M**

6. The questions about how to apply the requirements in paragraph 28(f) of IAS 8 have been asked within the context of retrospective application when comparative periods are not required to be restated at transition. Under IFRS 9 and tentative decisions to date, for the new C&M and impairment models, comparative periods need not be restated and restatement is only allowed if it does not involve the use of hindsight. The IASB has specifically considered this question in the Impairment project and tentatively decided that disclosure of impairment amounts that would have been reported in prior periods in accordance with the new impairment model should **not** be required for prior periods. The IASB agreed that requiring this disclosure would undo the effect of not requiring comparative periods to be restated.
7. The staff are of the view that it would be inconsistent to provide comparative relief for the C&M requirements in IFRS 9 while requiring prior period restatements in the application of IAS 8. Relief from restating comparatives for the C&M requirements has **already been provided in IFRS 9** as part of the changes made in December 2011 when the IASB issued an amendment to IFRS 9, *Mandatory Effective Date of IFRS 9 and Transition Disclosures*. In

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<sup>3</sup> Agenda Paper 6E

addition, such disclosures are not required for impairment and the staff think that consistency of prior-period disclosures is important for the phases of the project to replace IAS 39; otherwise, these disclosures would not provide a meaningful comparison between IAS 39 and IFRS 9<sup>4</sup>. Consequently, the staff recommend that the IASB should confirm that in the period in which IFRS 9 is initially applied, disclosure of the line item amounts that would have been reported in prior periods in accordance with the C&M model in IFRS 9 should **not** be required.

**Question 1—Line item disclosures for prior periods for C&M**

Does the IASB agree with the staff recommendation in paragraph 7 to confirm that in the period in which IFRS 9 is initially applied, disclosure of the line item amounts that would have been reported in prior periods in accordance with the C&M model in IFRS 9 should **not** be required?

**Current-period disclosures for C&M**

8. The December 2011 amendments set out modified disclosure requirements on transition to IFRS 9 ('modified transition disclosures'). The modified transition disclosures largely focus on the statement of financial position at the date of initial application of IFRS 9. In addition, in the reporting period when IFRS 9 is initially applied, the following disclosure is required for financial assets and financial liabilities that have been reclassified so that they are measured at amortised cost as a result of the transition to IFRS 9:
- (a) the fair value of the financial assets or financial liabilities at the end of the reporting period;
  - (b) the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period under the IAS 39 classification;
- and

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<sup>4</sup> The IASB came to a similar conclusion when providing comparative relief for the classification and measurement chapters of IFRS 9—that is, the usefulness of comparative information is impaired by different transition requirements (BC7.34K of IFRS 9).

- (c) the interest income or expense recognised<sup>5</sup>.
9. In issuing the modified transition disclosures, the IASB noted that these disclosures can provide the information necessary to understand the effect of the transition from IAS 39 to IFRS 9. In particular, these disclosures provide information about the effect on the key financial statement line items for the period after the date of initial application of IFRS 9. However, these disclosures are not as comprehensive as requiring each line item to be reported in accordance with both IFRS 9 and IAS 39.
10. The staff have identified three considerations to take into account in evaluating whether each line item should be required to be reported in accordance with both IFRS 9 and IAS 39 in the current period:
- (a) whether such disclosure would provide useful information,
  - (b) the cost of providing such disclosures, and
  - (c) whether the existing transition disclosure requirements are sufficient and enable users to assess the effect of transition<sup>6</sup>.
11. **Useful information** – in the staff’s view, the interaction between C&M and hedge accounting would call into question whether disclosing current-period amounts based on IAS 39 C&M requirements would result in useful information<sup>7</sup>. Set out below are some considerations for why considering hedge accounting under IAS 39 in the period hedge accounting under IFRS 9 is first applied would not be appropriate—this would mean that any restatement of C&M would be essentially incomplete as it would not give a true picture of IFRS 9 relative to IAS 39.
12. The concept of hedge accounting as such does not lend itself to assumptions about what hedge accounting (under IAS 39) *might have been if it had been applied* (but actually was not applied). The reason is that hedge accounting is an elective accounting treatment that allows

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<sup>5</sup> Paragraph 44U of IFRS 7. **Appendix A** contains all of the transition disclosures required by IFRS 7 when IFRS 9 is initially applied.

<sup>6</sup> Additionally, in accordance with IAS 8, any disclosures the IASB decides to require would only be required if it were practicable to provide them.

<sup>7</sup> Assuming the C&M requirements of IFRS 9 are applied at the same time as the new hedge accounting model, which will be the case unless an entity early applies a previous version of IFRS 9.

the resolution of accounting mismatches. In order to do so, an entity must make that election and then, if the hedging relationship meets the qualifying criteria, prospectively achieves hedge accounting. Under IAS 39 an entity can also discontinue hedge accounting at any time and without giving any reason.

13. This means that any IAS 39-based hedge accounting information ‘as if applied in the current period’ (‘as if’-information) would be information based on highly speculative assumptions that could distort comparability. For example:
- (a) An entity could dedesignate hedging relationships under IAS 39 and thereby discontinue hedge accounting at any point in time (just before transitioning or in the current period given that the fiction of applying IAS 39 would consequently retain that possibility for the ‘as if’-information). This would result in completely atypical information that has the effect of distorting the ‘as if’-information. Moreover, it would be confusing because many of those hedging relationships might continue in the IFRS 9-based information.
  - (b) An entity would have to continue to apply the IAS 39 bright-line effectiveness test (ie the 80-125 per cent range). When applying IAS 39, entities would often have to restart the hedging relationship when it failed using a different effectiveness test or different hedge ratios. It is highly speculative to assume what an entity would have done under IAS 39 in response to such a situation (ie whether, when and how to reconfigure and restart the hedging relationship) if IAS 39 had really been the basis for accounting<sup>8</sup>.
14. **Cost** – the staff note that requiring disclosure of IAS 39 amounts in the current period would require entities to incur the costs of running parallel systems, which would be onerous for preparers.
15. **Existing disclosure requirements** – as discussed in paragraph 8, the modified transition disclosures focus largely on the statement of financial position at the date of initial application of IFRS 9 in order to enable investors to understand the effect of the transition

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<sup>8</sup> **Appendix B** contains a discussion of the implications of ‘as if’-information for IAS 39 hedge accounting *outside the context of the interaction with C&M* of financial instruments

from IAS 39 to IFRS 9 at that date. In addition, they require disclosure of the effect on the key financial statement line items for the current period. The staff believe that these disclosures would enable users to assess the effect of transition to IFRS 9. The staff note that in the outreach performed in the course of developing *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, investors stated that the statement of profit or loss and other comprehensive income is less useful than the statement of financial position<sup>9</sup>, aside from situations where it provides a link with the statement of financial position (eg net interest income). The staff believe that disclosures required by paragraph 44U of IFRS 7 provide such a link. When the staff discussed the proposed disclosures with users it was only the information that is now included in the IFRS 7 disclosures that we proposed would be available to explain the effect of moving to IFRS 9. This was thus designed to be used in isolation to explain the effect of moving to IFRS 9 and feedback was obtained on that basis.

16. For the reasons described in the preceding paragraphs, the staff recommend that in the period in which IFRS 9 is initially applied, disclosure of the current-period line item amounts that would have been reported in accordance with the C&M model in IAS 39 should **not** be required.

#### Question 2—Line item disclosures for the current period for C&M

Does the IASB agree with the staff recommendation in paragraph 16 that in the period in which IFRS 9 is initially applied, disclosure of the current period line item amounts that would have been reported in accordance with the C&M model in IAS 39 should **not** be required?

#### Current-period disclosures for impairment

17. This section of the paper is only relevant if the IASB agrees with the staff recommendation in the preceding section (and the staff recommendation in the preceding section holds irrespective of the IASB's decision in this section).
18. In July 2012, the IASB tentatively decided that the disclosures such as those in paragraph 28(f) of IAS 8 should be required in the current period when the new impairment model is

<sup>9</sup> Paragraph BC7.34I of IFRS 9

initially applied. The IASB did not intend to interpret this requirement, but rather to require disclosure of the line item amounts that would have been reported in accordance with the IAS 39 impairment model during the current period in which the new impairment model is initially applied.

19. A **true comparison** of what impairment would have been under IAS 39 relative to what it is under IFRS 9 would also reflect what classifications would have been under IAS 39 relative to what they are under IFRS 9. However, if the IASB agrees with the staff recommendation in the preceding section, disclosure would not be required of the line item amounts that would have been reported in that period under the IAS 39 C&M model. Consequently, to provide such a true comparison for impairment would require an entity not only to run both an incurred loss and an expected loss impairment model but also to track the classification of assets as they would have been under IAS 39 and how they are now classified under IFRS 9.
20. In light of this interaction between impairment and C&M, the staff have considered alternatives that would enable comparison between the impairment amounts reported under IAS 39 and IFRS 9 without requiring the classifications to be tracked. That is, there could be disclosure of what the IAS 39 impairment amount would have been on a subset of debt instruments<sup>10</sup> based solely on their classification under IFRS 9<sup>11</sup>.
21. According to tentative decisions on C&M, IFRS 9 will have only one impairment measurement whereas IAS 39 has two. To address this difference the IASB could either:
  - (a) require the impairment measurement applied to available-for-sale (AFS) assets under IAS 39 to be applied to debt instruments measured at fair value through other comprehensive income (FVOCI), or
  - (b) require the current-period impairment disclosure only for assets measured at amortised cost under IFRS 9.

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<sup>10</sup> In accordance with IFRS 9, only debt instruments are subject to impairment. Alternatively, the IASB could also require IAS 39 impairment to be applied to equity instruments but this would cause a question of how to identify the relevant equity instruments under IFRS 9.

<sup>11</sup> The staff note that this disclosure could not be used to compare current-period IAS 39 impairment with prior-period IAS 39 impairment because the related classifications would be determined using different C&M models.



22. Some might think it is inconsistent with the tentative decisions in this project to apply AFS impairment to assets measured at FVOCI under the new C&M model, because the new C&M model would require the same impairment model for debt instruments measured at FVOCI as for assets measured at amortised cost. However, to require the current-period impairment disclosures only for assets measured at amortised cost under IFRS 9 would ignore debt instruments measured at FVOCI under IFRS 9. Consequently, the staff think that if disclosure is required of what the IAS 39 impairment amount would have been for a subset of debt instruments under IFRS 9, the alternatives should include assets measured at FVOCI under the new C&M model, and those assets should be subject to AFS impairment for this disclosure<sup>12</sup>. This would highlight a key difference that arises as a result of the new impairment model.
23. On the basis of the considerations in the preceding paragraphs, the staff have identified two alternatives:
- (a) **Alternative 1:** apply IAS 39 impairment to all *debt instruments* subject to impairment under IFRS 9 on which *'net' interest revenue presentation is required*<sup>13</sup> in the reporting period when IFRS 9 is initially applied, and
  - (b) **Alternative 2:** apply IAS 39 impairment to *all debt instruments* subject to impairment under IFRS 9 in the reporting period when IFRS 9 is initially applied.
24. Under either alternative, entities would be required to apply AFS impairment to assets measured at FVOCI under the new C&M model (paragraph 22). Also under either alternative, entities would be required to apply the IAS 39 impairment model to financial assets that were reclassified to amortised cost or FVOCI at transition to IFRS 9 and therefore on which impairment:
- (a) has never been calculated; or

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<sup>12</sup> The staff note that the AFS impairment expense in the current period would not be able to not be compared to the AFS impairment expense in prior periods, because of (a) reclassifications at transition to IFRS 9, and (b) the fact that only debt instruments are subject to impairment according to the new C&M model, whereas IAS 39 also required impairment for some equity instruments.

<sup>13</sup> According to the new impairment model, interest revenue is required to be calculated on the carrying amount net of the impairment allowance of the asset if there is objective evidence of the criteria in paragraphs 59(a)-(e) of IAS 39.

- (b) on which impairment was measured differently.

Depending how many financial assets are reclassified at transition to IFRS 9, this could be true for a large number of assets. However, the difference between the alternatives (detailed below) is the *relative* number of assets for which this would be the case.

**25. Alternative 1: All debt instruments subject to impairment under IFRS 9 on which ‘net’ interest revenue presentation is required at the end of the reporting period following the initial application of IFRS 9** - Alternative 1 would be the least onerous alternative because it would be based on a subset of assets that is already required to be tracked by the new impairment model. According to the new impairment model, interest revenue is required to be calculated on the carrying amount net of the impairment allowance of the asset if there is objective evidence of the criteria in paragraphs 59(a)-(e) of IAS 39. At the end of the period containing the date of initial application, the entity could be required to disclose the following:

- (a) the carrying amount of this subset of assets;
- (b) the impairment loss recognised on these assets in accordance with the new impairment model; and
- (c) the impairment loss that would have been recognised on these assets in accordance with the IAS 39 impairment model.

26. No additional tracking would be necessary in order to provide this disclosure. In addition, it would apply to a limited number of assets relative to Alternative 2 and therefore would result in fewer assets that would require a given IAS 39 impairment measurement for the first time (paragraph 24). However, the impairment loss for assets with an incurred loss is likely to be similar under IAS 39 and the new impairment model—it will not highlight key effects of moving to the new impairment model. In addition, this disclosure would not capture impairment losses that are incurred but not reported.

**27. Alternative 2: All debt instruments subject to impairment under IFRS 9 in the reporting period when IFRS 9 is initially applied** – The main differences between the alternatives are that Alternative 2 would:

- (a) incorporate losses that are incurred but not reported, and

- (b) apply to a larger number of assets than Alternative 1, and consequently would result in more assets that would require a given IAS 39 impairment measurement for the first time (paragraph 24).
28. The staff do not recommend Alternative 1 because it would not provide a useful basis for comparing how impairment losses are measured before they become incurred, which is a key difference between the IAS 39 impairment model and the new impairment model.
29. That leaves Alternative 2 or a true comparison (paragraph 19). In contrasting these approaches the staff note the following about the disclosure that would result from Alternative 2:
- (a) It could not be used to compare current-period IAS 39 impairment with prior-period IAS 39 impairment because the related classifications would be determined using different C&M models, and
  - (b) It would not require classifications to be tracked (ie it is based only on the classification of assets following application of IFRS 9).
- Stated simply, Alternative 2 results in narrower-scope information than a true comparison, but is also less onerous to apply.
30. The staff question why, if the new model results in more useful information, entities should be required to continue applying the IAS 39 impairment model after they have made the transition to the new model. The staff question whether the benefit of a true comparison would justify the cost of tracking the classification of assets as they would have been under IAS 39 and how they are now classified under IFRS 9. The staff similarly question Alternative 2, because although it is less costly than a true comparison, it also has a narrower scope.
31. In addition, the staff note that the disclosures required when applying the new impairment model for the first time and on an ongoing basis will provide information about the effect of impairment on the financial statements so it is transparent how the application of impairment has changed. When the new impairment model is applied for the first time, IAS 8 requires entities to disclose a description of the transitional provisions and the nature of the change in accounting policy. In addition, when entities initially apply IFRS 9, they are required to

provide the modified transition disclosures in IFRS 7 which show the effect of changes in measurement upon applying IFRS 9 and also show separately the effect on retained earnings for each line item in that disclosure.

32. Moreover, at transition and on an ongoing basis under the new impairment model, entities must disclose the assumptions and techniques used in the measurement of expected losses, and how the entity assesses the criteria for recognition of lifetime expected losses that will inform users about how the new model applies, enabling a comparison with how an entity assessed impairment under the old model. These disclosures will also include a period-to-period reconciliation of the carrying amounts and impairment allowance, disaggregated between assets with a 12 month expected loss and a lifetime expected loss allowance (thus providing users with the starting point on transition).
33. On the basis of the considerations in the preceding paragraphs, the staff recommend that in the period in which IFRS 9 is initially applied, disclosure of the current period line item amounts that would have been reported in accordance with the impairment model in IAS 39 should **not** be required.

#### Question 3—Current-period disclosures for impairment

Does the IASB agree with the staff recommendation in paragraph 33 that in the period in which IFRS 9 is initially applied, disclosure of the current period line item amounts that would have been reported in accordance with the impairment model in IAS 39 should **not** be required?

### Phased early application of IFRS 9

34. In July 2012, the IASB tentatively decided that once IFRS 9 is finalised, the phased approach to IFRS 9 should end, in order to improve comparability for users of financial statements. Accordingly, the IASB tentatively decided that entities should no longer be permitted to early apply previous versions of IFRS 9 when all of the phases are completed and the final version

of IFRS 9 is published. Instead, entities will only be permitted to early apply IFRS 9 in its entirety<sup>14</sup>.

35. If this proposed amendment to the existing early application provisions in IFRS 9 were to take immediate effect, the right to early apply previous versions of IFRS 9 would be immediately suspended. That would create uncertainty and disadvantage entities preparing to early apply IFRS 9 before the standard is finalised. Consider an entity that has been preparing to apply IFRS 9 with only the existing C&M and hedge accounting requirements, and then IFRS 9 including amendments to C&M and a new impairment model is finalised before the entity's reporting date. Unless the IASB provides lead time before the amendments to the transition requirements become effective, that entity will not be able to release its financial statements prepared in accordance the previous version of IFRS 9. That would create disruption for entities preparing to apply IFRS 9 early and the IASB has always stated that it will seek to avoid disadvantaging those who early apply IFRS 9 and to minimise the disruption caused by the project to consider limited modifications to IFRS 9. Accordingly, the staff think that the IASB should provide lead time before previous versions of IFRS 9 cease to be available for early application.
36. If the IASB agrees to provide lead time as discussed in paragraph 35, the IASB would need to consider how long the lead time should be. The staff think that the lead time should be short, because otherwise the effect of eliminating phased early application would be nullified. At the same time, it should be sufficient to enable entities to plan early application of IFRS 9 as currently permitted by the standard.
37. IFRS 9 is targeted for mid-2013 completion, which is broadly 18 months away from the mandatory effective date of IFRS 9. Consequently, the staff think that the lead time should be substantially less than 18 months after the finalisation of IFRS 9. However, if the lead time were too short, it would not be useful to entities preparing to apply a previous version of

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<sup>14</sup> Those entities that—prior to the publication of the complete version of IFRS 9—already early applied a previous version of IFRS 9 would be able to continue applying that version and not be required to apply the final requirements until the mandatory effective date.

IFRS 9. The staff think that a lead time of only one quarter would be too short, because the implementation process is likely to span multiple quarters, and it would probably be difficult for entities to implement all of the necessary changes in one interim period.

38. On balance, the staff recommend a six-month lead time (ie two quarters)—that is, phased early application of IFRS 9 should be eliminated only for reporting periods beginning six months after the entire IFRS 9 is finalised. To illustrate, IFRS 9 is targeted for completion in mid-2013. For example, if it were finalised on 30 June 2013, entities would no longer be permitted to choose to early apply previous versions of IFRS 9 in reporting periods beginning on or after 1 January 2014<sup>15</sup>. The lead time would also be six months after finalisation if IFRS 9 were finalised in a later month. The staff think that a six-month lead time is reasonable and will enable entities to manage their implementation projects and plan early application of IFRS 9.

#### **Question 4—Lead time for the elimination of phased early application**

Does the IASB agree with the staff recommendation in paragraph 38 that earlier versions of IFRS 9 should be withdrawn on a date 6 months after the publication of the final version of IFRS 9?

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<sup>15</sup> However, an entity that applied a previous version of IFRS 9 in a period beginning before 1 January 2014 would be able to continue applying that version of IFRS 9 until the mandatory effective date of the entire IFRS 9.

## Appendix A: Disclosures required by IFRS 7 when IFRS 9 is initially applied

- 44I When an entity first applies IFRS 9, it shall disclose for each class of financial assets and financial liabilities at the date of initial application:
- (a) the original measurement category and carrying amount determined in accordance with IAS 39;
  - (b) the new measurement category and carrying amount determined in accordance with IFRS 9;
  - (c) the amount of any financial assets and financial liabilities in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated, distinguishing between those that IFRS 9 requires an entity to reclassify and those that an entity elects to reclassify.

An entity shall present these quantitative disclosures in tabular format unless another format is more appropriate.

- 44J When an entity first applies IFRS 9, it shall disclose qualitative information to enable users to understand:
- (a) how it applied the classification requirements in IFRS 9 to those financial assets whose classification has changed as a result of applying IFRS 9.
  - (b) the reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through profit or loss.

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- 44S When an entity first applies the classification and measurement requirements of IFRS 9, it shall present the disclosures set out in paragraphs 44T–44W of this IFRS if it elects to, or is required to, provide these disclosures in accordance with IFRS 9 (see paragraph 8.2.12 of IFRS 9 (2009) and paragraph 7.2.14 of IFRS 9 (2010)).

- 44T If required by paragraph 44S, at the date of initial application of IFRS 9 an entity shall disclose the changes in the classifications of financial assets and financial liabilities, showing separately:
- (a) the changes in the carrying amounts on the basis of their measurement categories in accordance with IAS 39 (ie not resulting from a change in measurement attribute on transition to IFRS 9); and
  - (b) the changes in the carrying amounts arising from a change in measurement attribute on transition to IFRS 9.

The disclosures in this paragraph need not be made after the annual period in which IFRS 9 is initially applied.

44U In the reporting period in which IFRS 9 is initially applied, an entity shall disclose the following for financial assets and financial liabilities that have been reclassified so that they are measured at amortised cost as a result of the transition to IFRS 9:

- (a) the fair value of the financial assets or financial liabilities at the end of the reporting period;
- (b) the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets or financial liabilities had not been reclassified;
- (c) the effective interest rate determined on the date of reclassification; and
- (d) the interest income or expense recognised.

If an entity treats the fair value of a financial asset or a financial liability as its amortised cost at the date of initial application (see paragraph 8.2.10 of IFRS 9 (2009) and paragraph 7.2.10 of IFRS 9 (2010)), the disclosures in (c) and (d) of this paragraph shall be made for each reporting period following reclassification until derecognition. Otherwise, the disclosures in this paragraph need not be made after the reporting period containing the date of initial application.

44V If an entity presents the disclosures set out in paragraphs 44S–44U at the date of initial application of IFRS 9, those disclosures, and the disclosures in paragraph 28 of IAS 8 during the reporting period containing the date of initial application, must permit reconciliation between:

- (a) the measurement categories in accordance with IAS 39 and IFRS 9; and
- (b) the line items presented in the statements of financial position.

44W If an entity presents the disclosures set out in paragraphs 44S–44U at the date of initial application of IFRS 9, those disclosures, and the disclosures in paragraph 25 of this IFRS at the date of initial application, must permit reconciliation between:

- (a) the measurement categories presented in accordance with IAS 39 and IFRS 9; and
- (b) the class of financial instrument at the date of initial application.



## Appendix B: Implications of ‘as if’-information for IAS 39 hedge accounting *outside the context of the interaction with C&M* of financial instruments

A1. In addition to its interaction with C&M of financial instruments (paragraphs 11-13 of this paper) the staff note that ‘as if’-information for hedge accounting outside that context would more generally be questionable for various reasons:

- (a) The extent to which hedge accounting is used will inevitably change as a consequence of the new hedge accounting model. In that respect, the use of hedge accounting before and after applying the new hedge accounting model will, for many entities, not be comparable.
- (b) Many hedging relationships that were designated under IAS 39 will continue under IFRS 9, applying the new requirements. In those cases the information is largely comparable and any ‘parallel’ information under IAS 39 would at best not add anything and at worst confuse readers of the financial statements.
- (c) The hedge accounting disclosures of the new hedge accounting model provide information about the effect of hedge accounting on the financial statements so that it is transparent how the application of hedge accounting has changed. This information is factual and more informative than speculative ‘as if’-information based on IAS 39.
- (d) Limiting the ‘as if’-information to the effect of solely applying IAS 39 would omit the knock-on effects that hedge accounting adjustments have on various accounting areas (deferred taxes, the effect of a different cost basis of items that need to be tested for impairment like under IAS 36 *Impairment of Assets*, depreciation and amortisation expense, revenue, cost of sales, etc). On the other hand, computing all those effects would be a significant effort (if it were operationally feasible at all).