

# AGENDA PAPER

IFRS Advisory Council Meeting

LONDON 25 – 26 February 2013

**Agenda ref 10**

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TOPIC Limited Amendments to IFRS 9

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This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council. The views expressed in this paper are those of the authors. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS.

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## **Limited Amendments to IFRS 9 – Classification and measurement Presentation for February 2013 IFRS Advisory Council meeting**

February 2013

## International Financial Reporting Standards



# Limited Amendments to IFRS 9

Classification and Measurement

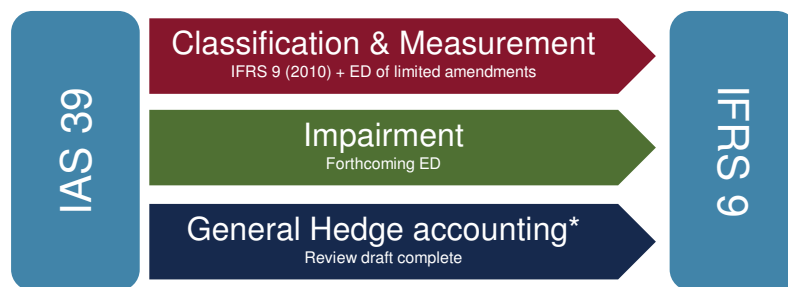
The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

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## Replacing IAS 39 – where are we?

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\* Macro hedge accounting is being deliberated separately from this project

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## Limited Amendments

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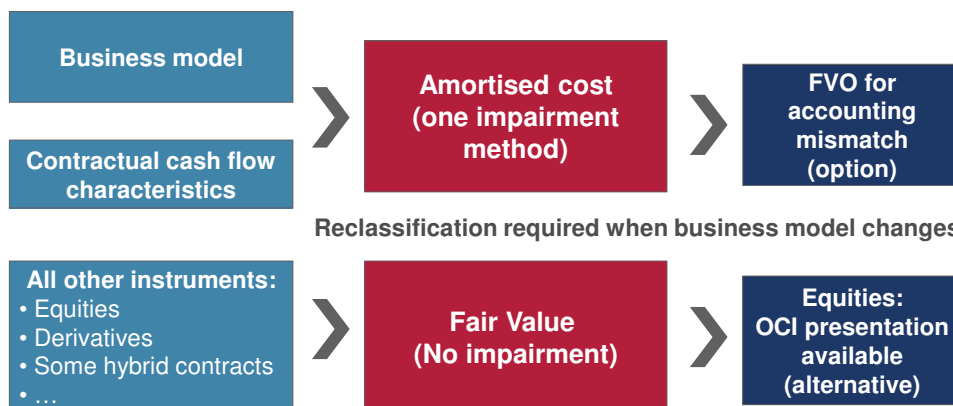
- IFRS 9 is fundamentally sound and operational
- Mindful of efforts to implement IFRS 9
- Three primary objectives :
  1. Improve interaction with accounting for insurance contracts
  2. Address narrow range of application questions
  3. Reduce key differences with FASB



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## IFRS 9 currently

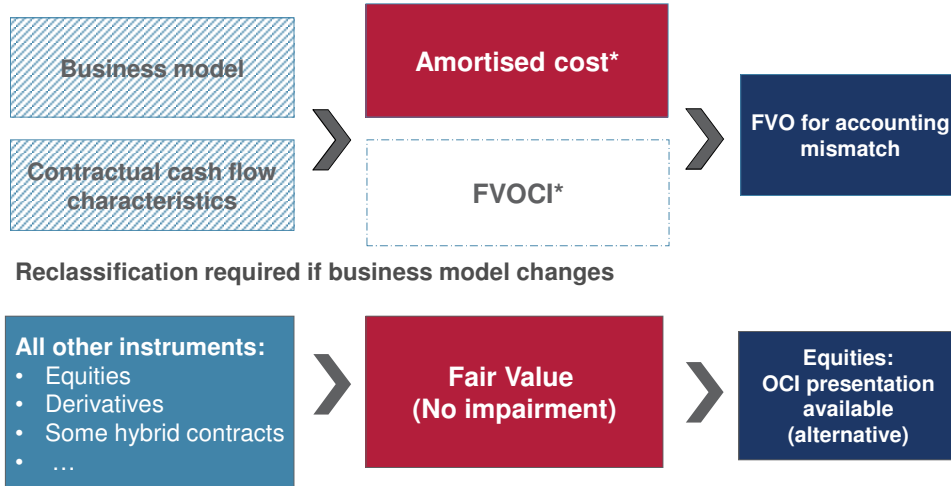
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## IFRS 9 as proposed

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\* Same impairment model

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## Cash flow characteristics

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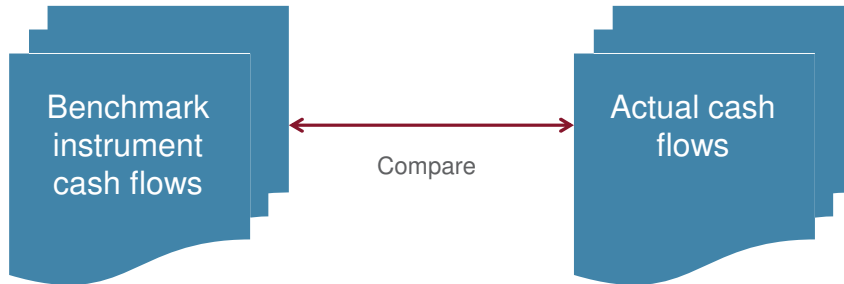
- Affirms the principle in IFRS 9
  - Assessed on financial asset in its entirety
  - Are cash flows solely payments of principal and interest (P&I)?
- Clarify the application of the principle when:
  - Interest rate is leveraged or
  - There is an 'interest rate mismatch'

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## Cash flow characteristics

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Satisfies P&I test if effect of modification could not be more than insignificant



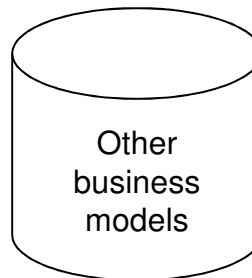
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## Business model under IFRS 9

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Amortised cost  
(subject to cash flows)



FVPL



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## 'Hold to collect' business model

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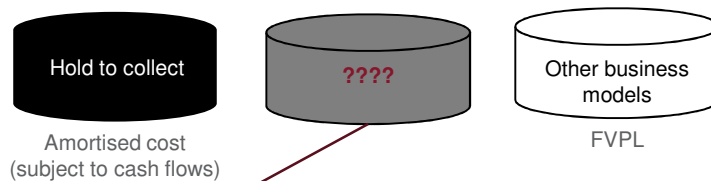
- Application questions on sales – clarifications needed regardless of the proposed FVOCI
- Objective and principle unchanged
- Sales are incidental to the entity's objective
- Additional guidance on types of business activities and frequency/volume of sales consistent with 'hold to collect' business model



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## Proposed fair value through OCI

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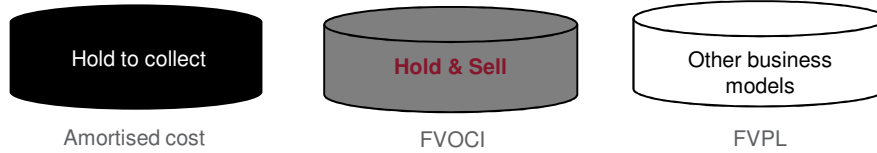
- Contractual cash flows are solely principal and interest
- Both collection of cash flows and sales are integral to the entity's objective
- Both amortised cost and fair value information relevant



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## Proposed fair value through OCI

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- P&L reflects performance on an amortised cost basis
  - effective interest method
  - same impairment model as for amortised cost
  - recycling of gain or loss from OCI on derecognition
- Fair value recognised in balance sheet
- Difference between fair value and amortised cost profile recognised in OCI
- Total comprehensive income reflects performance on a fair value basis



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## Transition – early application choices

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Currently

Classification & Measurement:  
Financial Assets

OR

All Classification & Measurement:  
Financial Assets + Financial  
liabilities (incl own credit)

OR

All Classification & Measurement  
+  
General Hedge Accounting

Proposed

Own Credit requirements

OR

All Classification & Measurement  
+  
Impairment  
+  
General Hedge Accounting



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