

STAFF PAPER

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Project	Financial Instruments: Classification and Measurement and Impairment		
Paper topic	Transition to IFRS9—presentation of comparative information by first-time adopters of IFRS and early application of IFRS 9		
CONTACT(S)	Yulia Feygina	yfeygina@ifrs.org	+44 (0)20 7332 2743
	Hannah King	hking@ifrs.org	+44 (0)20 7246 6961

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Purpose and structure of this paper

1. This paper considers the following topics related to the transition to IFRS 9 *Financial Instruments*:
 - (a) For first-time adopters of IFRS (FTAs)—presentation of comparative information for financial instruments and the related disclosures; and
 - (b) For entities already applying IFRS (existing IFRS preparers) **and** FTAs—early application of:
 - (i) the **completed** version of IFRS 9 (ie IFRS 9 that contains the requirements for **all three phrases** of the project to replace IAS 39 *Financial Instruments: Recognition and Measurement*; ie classification and measurement (C&M) — including the limited amendments—impairment and hedge accounting); and
 - (ii) **a previous version** of IFRS 9 (ie IFRS 9 (2009) that sets out C&M requirements for financial assets, IFRS 9 (2010) that adds the C&M requirements for financial liabilities and IFRS 9 (2013) that adds the requirements for hedge accounting).

2. The **first section** of this paper discusses the presentation of comparative information and related disclosures for FTAs *only*. IFRS 9¹ and IFRS 7 *Financial Instruments: Disclosures* already set out the requirements for existing IFRS preparers related to the presentation of comparative information on transition to IFRS 9 and the related disclosures. However, the IASB stated that it would consider whether those requirements are appropriate for FTAs when the IASB re-deliberates the exposure draft ED/2012/4 *Classification and Measurement: Limited Amendments to IFRS 9* (Proposed amendments to IFRS 9 (2010)) ('the Limited Amendments ED'). Thus the Limited Amendments ED specifically sought feedback on the transition to IFRS 9 for FTAs; ie Question 9 in the Limited Amendments ED asked respondents whether there are considerations unique to FTAs that the IASB should consider for the transition to IFRS 9.
3. Accordingly, the first section of the paper:
 - (a) Provides the relevant background information on the presentation of comparative information on the transition to IFRS 9 and the related disclosures (paragraphs 7-17);
 - (b) Summarises feedback received on the Limited Amendments ED on the transition to IFRS 9 by FTAs (paragraphs 18-20); and
 - (c) Sets out staff analysis and recommendations and questions for the IASB (paragraphs 21-44).
4. Specifically, the staff will ask the IASB whether FTAs should be required—or permitted—to provide comparative information that complies with IFRS 9. This decision may depend on:
 - (a) The FTA's date of transition to IFRS; and / or
 - (b) The version of IFRS 9 that the FTA applies in its first IFRS financial statements.
5. The **second section** of the paper considers early application of IFRS 9 by existing IFRS preparers and FTAs—and whether there are any unique considerations for the latter. Specifically that section:

¹ In this paper, the staff refer to 'IFRS 9' when we are describing **all** versions of the Standard. When the staff are describing only a particular version, we refer to that particular version (eg IFRS 9 (2009)).

- (a) Provides the relevant background information on the early application of IFRS 9 (paragraphs 45-48);
 - (b) Summarises feedback received on the Limited Amendments ED related to the early application of IFRS 9 (paragraphs 49-55); and
 - (c) Sets out staff analysis and recommendations and questions for the IASB (paragraphs 56-57).
6. Specifically, the staff will ask whether the IASB would like to confirm the proposals in the Limited Amendments ED that after the completed version of IFRS 9 is issued:
- (a) Entities are permitted to early apply the completed version of IFRS 9; and
 - (b) Entities are not permitted to *newly* early apply previous versions of IFRS 9 if their date of initial application is six months or more after the completed version of IFRS 9 is issued (ie this means that six months after the publication of the final IFRS 9, the earlier ('incomplete') versions of IFRS 9 can no longer be newly applied).

Presentation of comparative information for financial instruments by FTAs and related disclosures

Background

7. **IFRS 9 (2009) and IFRS 9 (2010)**—IFRS 9 (2009), which sets out the C&M requirements only for assets and IFRS 9 (2010), which sets out the C&M requirements for both assets and liabilities, generally require retrospective application but provide relief from restating comparative information for entities that adopted those versions of IFRS 9 for reporting periods beginning *before 1 January 2012*.²
8. That temporary relief was provided in order to enable entities wishing to early apply IFRS 9 to do so as soon as possible after the Standard was issued. At that

² The staff note that entities are permitted to restate comparative information if that is possible without the use of hindsight.

time, the IASB concluded that waiving the requirement to restate comparatives struck a balance between the conceptually preferable method of full retrospective application and the practicability of adopting the new classification model within a short time frame. The same relief was made available for *both* existing IFRS preparers and FTAs.

9. Regarding the relief provided to FTAs, IFRS 9 made consequential amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* to add paragraphs E1 and E2. The staff note that those paragraphs were consistent with the relief provided in IFRS 1 (2003) from restating comparative information for financial instruments for entities that adopted IAS 39 *Financial Instruments: Recognition and Measurement* before 1 January 2006. That is, the IASB decided to give FTAs similar relief on transition to IFRS 9 to what it gave in the past to FTAs on the transition to IAS 39. Pursuant to paragraphs E1 and E2, which were added to IFRS 1 when IFRS 9 (2009) was issued (and the corresponding paragraphs in IFRS 1 (2003), which discussed FTAs transition to IAS 39 in the past), a FTA that chose not to present comparative information for financial instruments that complied with the new financial instruments standard would be required to do the following (the full requirements are reproduced in Appendix A):
- (a) Apply its previous GAAP to comparative information in place of the new requirements for financial instruments;
 - (b) Disclose this fact together with the basis used to prepare this information;
 - (c) Recognise any adjustments between the beginning of the first IFRS financial statements (ie the first period that includes information that complies with the new requirements for financial instruments) and the end of the comparative period (ie the period that includes information under previous GAAP) as arising from a change in accounting policy (ie as an adjustment to the relevant component of equity);
 - (d) Provide sufficient disclosures that would enable users of financial statements to understand how the transition from previous GAAP to

IFRS affected the FTA's financial position, financial performance and cash flows.

10. ***Mandatory Effective Date and Transition Disclosures Amendments to IFRS 9 and IFRS 7 issued in December 2011 ('the 2011 Amendments')***—The 2011 Amendments eliminated the time limit in IFRS 9 on the relief from restating comparative information and instead introduced disclosure requirements into IFRS 7 *Financial Instruments: Disclosures* for the period in which an entity adopts IFRS 9. In other words, existing IFRS preparers are no longer required to restate comparative information under IFRS 9 *regardless of when they adopt* the Standard but instead are required to provide specific disclosures about their transition to IFRS 9 (those disclosure requirements are reproduced in Appendix B). The IASB concluded that those disclosures would enable users of financial statements to understand the effect of the entity's transition from IAS 39 to IFRS 9 while reducing the burden of restating comparative information for preparers. The staff note that the disclosure requirements were specifically developed for an entity's transition from the C&M requirements in IAS 39 to the respective requirements in IFRS 9.
11. When it issued the 2011 Amendments, the IASB did not make consequential amendments to IFRS 1 and hence the relief for FTAs from restating comparative information for financial instruments expired on 1 January 2012 (ie if a FTA applies IFRS 9 (2009), IFRS 9 (2010) or IFRS 9 (2013) for reporting periods beginning on or after 1 January 2012, it is required to provide comparative information that complies with IFRS 9). However the IASB stated that it would consider transition to IFRS 9 for FTAs when the remaining phases of IFRS 9 (ie hedge accounting, impairment and the limited amendments to C&M) neared completion.
12. **The Limited Amendments ED issued in November 2012**—The Limited Amendments ED proposed clarifications to the disclosure requirements in IFRS 7 that are relevant to existing IFRS preparers' transition to IFRS 9. That is, the IASB proposed to clarify that on transition to IFRS 9 an entity is required to comply with the quantitative disclosures set out in IFRS 7 rather than relying on the general quantitative disclosure requirements in other Standards.

13. Specifically, the Limited Amendments proposed to amend paragraph 44V in IFRS 7 to clarify that an entity need not disclose the line item amounts that would have been reported:

- (i) in prior periods in accordance with IFRS 9; and
- (ii) in the current period in accordance with IAS 39.

The rationale for this proposed clarification is set out in paragraphs BC108–BC112 of the Limited Amendments ED. In particular, the IASB noted that requiring disclosure of the line items amounts that would have been reported in prior periods in accordance with IFRS 9 would contradict the relief from restating comparative information.

14. The Limited Amendments ED did not propose amendments to IFRS 1; however, as noted in paragraph 2 of this paper, it specifically requested comments on transition to IFRS 9 by FTAs. The IASB stated that transition to IFRS 9 by FTAs will be considered in the re-deliberations of the Limited Amendments ED to make sure that FTAs:

- (a) are given adequate lead time to apply IFRS 9; and
- (b) are not at a disadvantage in comparison to existing IFRS preparers.

15. **IFRS 9 *Financial Instruments* (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (IFRS 9 (2013))**—In addition to adding the chapter for hedge accounting, IFRS 9 (2013) amended the transition requirements in the Standard to reflect particular decisions made by the IASB in re-deliberating the proposals in the Limited Amendments ED.

16. Specifically, IFRS 9 (2013) permits an entity to apply the requirements for the presentation of ‘own credit’ gains or losses on financial liabilities designated under the fair value option *in isolation*—and apply the other requirements in the Standard at a later date. In that case, the entity’s transition to IFRS 9 will involve more than one date of initial application and the entity would have relief from

restating comparatives at each date of initial application but accordingly would also need to apply the specific ‘transition’ disclosures in IFRS 7 at each date.³

17. To summarise, under IFRS 9 and IFRS 1:
- (a) On transition to IFRS 9, an existing IFRS preparer currently *is not* required to restate comparative information but is required by IFRS 7 to provide disclosures about the transition from IAS 39 to IFRS 9; and
 - (b) A FTA currently *is* required to restate comparative information. In addition, the general IFRS 1 disclosure requirements on transition to IFRS by a FTA would apply.

Feedback

18. As noted above, the Limited Amendments ED specifically sought feedback on the transition to IFRS 9 by FTAs and asked whether there are unique considerations for FTAs that the IASB should consider.
19. The IASB received a limited amount of feedback in response to that question. This section discusses only the feedback relevant to the presentation of comparative information for financial instruments by FTAs.
20. Most respondents who commented on the question stated that they were not aware of any unique considerations for FTAs. A few respondents specifically requested that the IASB provide relief to FTAs from presenting comparative information that complies with IFRS 9 for the same reasons that the IASB provided such relief to existing IFRS preparers—in particular, this request was made in order to give FTAs adequate lead time to prepare for the transition to IFRS 9 and to ensure that they are not at a disadvantage compared to existing IFRS preparers.

³ The staff understand that some interested parties believe that this point is currently unclear so we intend to clarify the relevant wording in the transition section of the completed version of IFRS 9.

Staff analysis and recommendations

21. This section considers whether, consistent with existing IFRS preparers, FTAs should be granted relief from presenting comparative information that complies with IFRS 9 and if so, whether that relief should:

- (a) Apply to *some* or *all* of the requirements in IFRS 9;
- (b) Be *temporary*, consistent with the short-term relief provided to FTAs:
 - (i) on transition to IAS 39 if a FTA adopted that Standard before 1 January 2006; and
 - (ii) on transition to IFRS 9 (2009) and IFRS 9 (2010) if a FTA adopted those Standards for reporting periods beginning before 1 January 2012

and if so, *for how long* that temporary relief should be available to FTAs; or

- (c) Be *permanent*, ie available to FTAs *regardless of when* they adopt IFRS 9;
- (d) Only apply to some or all *versions of IFRS 9*; and
- (e) Require disclosures on transition in lieu of presenting comparative information that complies with IFRS 9.

Should FTAs be granted any relief from presenting comparative information that complies with IFRS 9?

22. As a general principle, IFRS typically requires retrospective application of the new accounting policies to facilitate comparability across reporting periods. This principle equally applies to both existing IFRS preparers and FTAs and is particularly important for FTAs. Indeed, the objective of IFRS 1 is to ensure that the first IFRS financial statements prepared by a FTA contain high quality information that (a) is transparent for users of financial statements *and comparable*; (b) provide a suitable starting point for accounting in accordance with IFRS; and (c) can be generated at a cost that does not exceed the benefits.

23. However, on transition to IFRS 9, existing IFRS preparers are not required to restate comparative periods. Paragraph BC7.34D in the Basis for Conclusions on IFRS 9 discusses the following rationale for that relief:
- (a) Comparative relief was granted for IAS 32 *Financial Instruments: Presentation* and IAS 39 upon first-time adoption of IFRS for European reporting entities. Similar relief from restating comparatives was granted to all preparers when IFRS 9 (2009) and IFRS 9 (2010) were initially issued. Time pressures similar to those existing when previous versions of IFRS 9 were issued will nonetheless exist when the completed version of IFRS 9 is issued.
 - (b) Comparability is impaired by the transition requirements, which are complex and inconsistent across various phases of the project, reducing the usefulness of the comparative information (for example, the C&M phase requires retrospective application with some transition relief, whereas the hedge accounting phase requires prospective application).
24. The staff believe that the considerations set out above in paragraph 23 apply equally to FTAs. The staff note that IFRS 9 does not currently have a mandatory effective date and therefore depending on the IASB's decision on that date, the concern about allowing sufficient lead time could be alleviated. However, the staff note that the IASB has stated that it would not put FTAs at a disadvantage in comparison to existing IFRS preparers. Accordingly, the staff believe that regardless of the IASB's ultimate decision on the mandatory effective date of IFRS 9, **FTAs should not be required to start applying IFRS 9 earlier than existing IFRS preparers.** The staff acknowledge that the consistent application of accounting policies in the first IFRS financial statements is a core requirement of IFRS 1. However the staff note that IFRS 1 already contains voluntary exceptions and mandatory exemptions (relief) from this requirement. And, as noted above, the IASB provided short-term relief to FTAs from presenting comparative information that complies with IFRS 9 when the Board issued IFRS 9 (2009). Hence, on balance, the staff believe that **FTAs should be granted relief from presenting comparative information that complies with IFRS 9.** The following sections discuss what that relief should be.

Should relief for FTAs from presenting comparative information apply to some or all of the requirements of IFRS 9?

25. Some might argue that the IASB should provide relief from comparatives only for *particular* requirements in IFRS 9; for example, the new impairment requirements. Under this approach, FTAs would present comparative information that complies with most of the requirements in IFRS 9—but that comparative information (for example) would *not* comply with the new impairment requirements.
26. **The staff do not think that relief for FTAs from presenting comparative information that complies with IFRS 9 should—or could—apply only to some of the requirements in IFRS 9.** This is because:
- (a) All phases of IFRS 9—that is, the requirements for C&M, impairment and hedge accounting are interdependent and have been developed in contemplation of each other.
 - (i) For example, as discussed in IASB Agenda Paper 6C for the July 2012 meeting, the staff question whether the third measurement category—fair value through other comprehensive income (FVOCI)—would provide useful information if it is applied separately from (ie without) the new impairment requirements. That is because the FVOCI measurement category requires the same impairment and interest revenue model that is applied to financial assets measured at amortised cost. That, combined with recycling, results in amortised cost information in profit or loss for financial asset measured at FVOCI. This was a key objective for the FVOCI category.
 - (ii) In addition, the new hedge accounting model was designed to be applied with the C&M requirements in IFRS 9.

Therefore, even if the IASB were mainly concerned about allowing sufficient lead time for the application of the new impairment requirements and thus considered granting relief from restating comparative information *just* for the new impairment requirements, the

staff think that comparative information should not be restated for the new C&M requirements (amended by the Limited Amendments ED) without the new impairment model.

- (b) In the staff view, comparability would arguably be equally disrupted if FTAs were required—or allowed—to apply in the comparative period only a *subset* of IFRS 9's requirements in conjunction with a subset of requirements from their previous GAAP as it would be by a full relief from presenting comparative information that complied with IFRS 9. In other words, the staff see limited (if any) benefits in providing partial relief from presenting comparative information that complies with IFRS 9 compared to providing full relief.
- (c) Finally, as discussed in paragraphs 14 and 24, the IASB stated that it would not put FTAs at a disadvantage compared to existing IFRS preparers. The staff believe that providing partial relief from presenting comparative information that complies with IFRS 9 would not achieve that objective.

For how long should FTAs have relief from presenting comparative information that complies with IFRS 9?

27. Under the existing versions of IFRS 9 (ie IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013)), existing IFRS preparers would not need to present comparative information that complies with IFRS 9 on transition to IFRS 9—and would be prohibited from doing that unless they can do so without the use of hindsight. **Hence an existing IFRS preparer would not be required to start applying IFRS 9 earlier than the effective date of IFRS 9.**⁴
28. To illustrate, suppose the completed version of IFRS 9 is issued on 30 June 2014 and is mandatorily effective for annual periods beginning on or after 1 January 2017⁵. Suppose that the entity's annual reporting date is 31 December and the

⁴ The staff notes that IFRS 9 is applied retrospectively (with some exceptions) but, if an entity does not restate comparative information, the effect is reflected as an adjustment to opening equity balances.

⁵ In November 2013, the IASB tentatively decided that the effective date of IFRS 9 will not be earlier than 1 January 2017. The IASB will set the effective date of IFRS 9 in its re-deliberations of the new impairment model and the staff expect to bring a paper on this topic to the IASB meeting in February 2014.

entity did not choose to early apply IFRS 9. If the entity is an existing IFRS preparer, it would start applying IFRS 9 from 1 January 2017—ie the first set of financial statements prepared in accordance with IFRS 9 would be those prepared for 2017—and hence the entity would have 2.5 years of lead time to prepare for the transition to IFRS 9.

29. Under the general requirements of IFRS 1, a FTA must use the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements. FTAs are required to apply IFRS standards that are effective at the end of their first IFRS reporting period. That is, they are required to start applying IFRS from the date of transition to IFRS, which is the beginning of the earliest period for which an entity presents full comparative information under IFRS. Hence using the fact pattern above, and assuming one year of full comparative information is presented, a FTA preparing its first IFRS financial statements for the year ending 31 December 2017 would have to start applying IFRS 9 from 1 January 2016. In this case, the FTA would only have 1.5 years of lead time to prepare for the transition to IFRS 9.
30. Accordingly, in order to not put FTAs at a disadvantage compared to existing IFRS preparers in terms of the lead time to prepare for the transition to the *completed* version of IFRS 9, the staff believe that **FTAs should not be required to present comparative information that complies with IFRS 9 if the beginning of their first IFRS reporting period is earlier than the effective date of IFRS 9 plus one year**. So in the example discussed above, a FTA should not be required to present comparative information that complies with IFRS 9 if the beginning of its first IFRS reporting period is earlier than 1 January 2018.
31. If a FTA's first IFRS reporting period begins on or after the one year 'anniversary' of IFRS 9's mandatory effective date—ie 1 January 2018 in the example discussed above—the requirement to present comparative information that complies with IFRS 9 would not put a FTA at a disadvantage compared to an existing IFRS preparer in terms of the lead time available for the FTA to prepare for its transition to IFRS 9.

32. Some may argue that FTAs should be given permanent relief from restating comparative information; that is, that FTAs should be exempt from providing comparative information that complies with IFRS 9 regardless of when they transition to IFRS. However, the staff do not believe that this would be appropriate. The staff note that permanent relief has not been provided to FTAs in the past and do not see a compelling reason why this should be the case for the completed version of IFRS 9. Accordingly, **the staff do not think the IASB should give FTAs relief from presenting comparative information that complies with IFRS 9 if their first IFRS reporting period begins on or after the effective date of IFRS 9 plus one year.**
33. In addition, the staff note that temporary relief for FTAs from presenting comparative information that complies with IFRS 9 would be consistent with the short-term relief provided to FTAs:
- (a) on transition to IAS 39 if a FTA adopted that Standard before 1 January 2006; and
 - (b) on transition to IFRS 9 (2009) and IFRS 9 (2010) if a FTA adopted those Standards for reporting periods beginning before 1 January 2012.

Should the relief granted to FTAs from presenting comparative information that complies with IFRS 9 apply to some or all versions of IFRS 9?

34. Currently, the following versions of IFRS 9 are available for early application:
- (a) IFRS 9 (2009);
 - (b) IFRS 9 (2010); and
 - (c) IFRS 9 (2013).
35. In the Limited Amendments ED, the IASB proposed that:
- (a) Entities are permitted to early apply the completed version of IFRS 9; and
 - (b) Entities are not permitted to *newly* early apply previous versions of IFRS 9 if their date of initial application of IFRS 9 is six months or more after the completed version of IFRS 9 is issued (ie the phased approach terminates six months after the final IFRS 9 is issued).

36. The following discussion assumes that the IASB decides to confirm the proposals set out in paragraph 35 above. Respondents supported those proposals and, in the second half of this paper, the staff recommend that the IASB does indeed confirm them. If the IASB makes a different decision on the early application of previous versions or the completed version of IFRS 9, the staff will assess whether that decision has any knock-on effects on the presentation of comparative information by FTAs and, if necessary, will ask the IASB to consider those knock-on effects.
37. The staff believe that the considerations discussed above in paragraphs 27-33 apply to the presentation of comparative information on transition to the *completed* version of IFRS 9 if the FTA's first IFRS reporting period begins on a date *earlier* than the effective date of IFRS 9 plus one year. That is, as previously discussed, the staff believe that a FTA that chooses to early adopt the completed version of IFRS 9 should be allowed the same lead time for the transition to IFRS 9 as an existing IFRS preparer.
38. However, the staff believe that the arguments for providing relief to FTAs on the early application of *previous* versions to IFRS 9 are less compelling. This is because:
- (a) Previous versions of IFRS 9 do not contain the new impairment requirements, which arguably present the greatest operational challenge and hence are the primary driver for ensuring sufficient lead time is provided.
 - (b) The IASB provided short-term relief from restating comparative information on transition to IFRS 9 (2009) and IFRS 9 (2010) and that exemption in IFRS 1 has expired. The staff do not see a compelling reason to re-instate and extend that relief. In the staff view, those versions of IFRS 9 have been available for application for a sufficient period such that an entity has had adequate time to prepare for its transition, including the presentation of comparative information under the applicable version, if the entity intended to adopt those versions in the near future.
 - (c) From a practical standpoint, the previous versions of IFRS 9 would be available to be newly early applied for only six months after the

completed version of IFRS 9 is issued. The staff question whether any entities would transition to a previous version of IFRS 9 during those six months; for example, because those previous versions do not have the mandatory FVOCI measurement category and thus significant reworking would result if an entity were to apply a previous version of IFRS 9 and then move to the completed version.

39. Hence **the staff do not believe that relief should be provided to FTAs from presenting comparative information that complies with a *previous* version of IFRS 9**. The staff do not believe that such relief is needed from a practical standpoint, nor that the reasons for such relief are compelling enough to override the general principle in IFRS 1 that an entity's first IFRS financial statements should be presented using consistent accounting policies.

Should FTAs be required to provide disclosure in lieu of presenting comparative information that complies with IFRS 9?

40. The staff note that the IASB has always required disclosures in lieu of presenting comparative information that complies with the new requirements for financial instruments. In the past, that was the case:
- (a) For FTAs, on transition from previous GAAP to:
 - (i) IAS 39 if a FTA adopted that Standard before 1 January 2006; and
 - (ii) IFRS 9 (2009) and IFRS 9 (2010) if those Standards were adopted before 1 January 2012; and
 - (b) For existing IFRS preparers, on transition from IAS 39 to IFRS 9.
41. The staff note that the disclosures that are required for FTAs and existing IFRS preparers were different in the past, which reflects the different starting point for transition—ie previous GAAP for FTAs and IAS 39 for existing IFRS preparers. However the objective of those disclosures was the same—that is, to explain the effects of the transition to the new requirements, notably on the entity's performance and financial position (as discussed in paragraph 9(d) and paragraph 10).

42. Accordingly, the staff believe that disclosures should be required if a FTA chooses not to present comparative information that complies with IFRS 9 on adoption of IFRS. Specifically, the staff believe that those disclosures should be the same as was required for FTAs when those entities transitioned to IAS 39, IFRS 9 (2009) and IFRS 9 (2010) and chose not to present comparative information that complied with those new standards.
43. That is, as set out in paragraph 9, FTAs should be required to:
- (a) Apply its previous GAAP to comparative information in place of the requirements in IFRS 9;
 - (b) Disclose this fact together with the basis used to prepare this information;
 - (c) Recognise any adjustments between the beginning of the first IFRS financial statements (ie the first period that includes information that complies with IFRS 9) and the end of the comparative period (ie the period that includes information under previous GAAP) as arising from a change in accounting policy (ie an adjustment to the relevant component of equity);
 - (d) Provide sufficient disclosures that would enable users of financial statements to understand how the transition from previous GAAP to IFRS 9 affected the FTA's financial position, financial performance and cash flows.

Summary of the staff recommendation

44. For the reasons discussed above, the staff recommend that FTAs:
- (a) should not be required to present comparative information that complies with the *completed* version of IFRS 9 if the beginning of their first IFRS reporting period is earlier than the mandatory effective date of IFRS 9 plus one year (paragraphs 22-33);
 - (b) should be required to provide the same disclosures as were required by IFRS 1 when the IASB provided a short-term relief for FTAs when the

IASB issued IFRS 9 (2009) and IFRS 9 (2010) (paragraphs 40-43) if the comparative financial statements do not comply with IFRS 9;

- (c) should be required to present comparative information that complies with the *completed* version of IFRS 9 if the beginning of their first IFRS reporting period is on or after the effective date of IFRS 9 plus one year (paragraphs 27-33);
- (d) should be required to present comparative information that complies with a previous version of IFRS 9 (ie IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013)) if they choose to early apply that previous version while it is still available for early application (paragraphs 34-39).

Question 1 for the IASB

Does the IASB agree with the staff recommendation in paragraph 44?

Early application of IFRS 9 by FTAs and existing IFRS preparers

Background

45. Currently, entities may choose to newly early apply any of the versions of IFRS 9 as follows:
- (a) IFRS 9 (2009), which sets out the requirements for the C&M of financial assets;
 - (b) IFRS 9 (2010), which added the C&M requirements for financial liabilities;
 - (c) IFRS 9 (2013), which added the requirements for hedge accounting.
46. The Limited Amendments ED proposed that:
- (a) Entities are permitted to early apply the *completed* version of IFRS 9; and
 - (b) Entities are not permitted to *newly* early apply a previous version of IFRS 9 if their date of initial application is six months or more after the completed version of IFRS 9 is issued. (However, if an entity has early

applied a previous version of IFRS 9 before the ‘six month window’ expires, the entity is permitted to continue to apply that version until the completed version of IFRS 9 becomes mandatorily effective).

47. In the Basis for Conclusions on the Limited Amendments ED, the IASB noted that having multiple versions of IFRS 9 available for application (in addition to IAS 39) reduces comparability for users of financial statements. In making this decision, the IASB noted that the phased approach (including transition) was originally developed in response to requests from the G20 and the Financial Stability Board that improvements to the accounting for financial instruments should be available quickly, and for this reason, the C&M requirements in IFRS 9 were issued before the phases on impairment and hedge accounting were completed. However, once all the phases are complete, the IASB noted that the decrease in comparability and the complexity of continuing to permit a phased approach to transition would not be justified because the completed version of IFRS 9 would be available for early application. However, in order to minimise the cost and disruption to entities that are preparing to apply IFRS 9 at the time that the completed version of the Standard is issued, the IASB decided to provide a six-month window (after the completed version of IFRS 9 is issued) during which entities can still newly early apply a previous version.
48. Those proposals would apply to both existing IFRS preparers and FTAs. That is, the Limited Amendments ED did not propose a special approach for FTAs (eg a longer window during which a FTA could early apply a previous version of IFRS 9) but asked a general question as to whether there are any unique considerations for transition to IFRS 9 by FTAs.

Feedback

Early application of IFRS 9

49. Of those who commented on these proposals in the Limited Amendments ED, nearly all agreed with the proposal that after the completed version of IFRS 9 is issued, only that version should be available for early application. Many noted that this would increase comparability compared to the phased early application that IFRS currently permits.

50. Of these respondents, almost all agreed that the six months' lead time proposed by the Limited Amendments ED is appropriate. However, a few disagreed with the six months' lead time. Those respondents were split between:
- (a) those who believed that *no* lead time was necessary—that is, the earlier versions of IFRS 9 should be unavailable for early application *as soon as* the completed version of IFRS 9 is issued; and
 - (b) those who believed that a *longer* period—12 months or more—should be given after the completed version of IFRS 9 is issued for entities to early apply previous versions of IFRS 9.
51. Those who believed that no lead time was necessary argued that the issuance of the completed version of IFRS 9 is still some time away and therefore preparers have sufficient time to plan their transition to IFRS 9 and users of financial statements would benefit if only a single version of IFRS 9 was available to be early applied. Those in favour of a longer period believed more lead time is needed due to the complexity of implementation of the completed version of IFRS 9.
52. Some respondents disagreed with the early application of IFRS 9 altogether. That is, they expressed the view that no versions of IFRS 9 should be available for early application. They emphasised the need for as much comparability as possible.
53. A few respondents disagreed with the proposal that would prohibit an entity from newly early applying previous versions of IFRS 9. They argued that some of the changes would be quicker to implement than others and thus entities should be permitted to early apply any version of IFRS 9 (or even a subset of the requirements in a particular version) until the mandatory effective date of the completed version of IFRS 9.

First-time adopters

54. As discussed in paragraphs 19-20, the IASB received limited feedback on transition to IFRS 9 by FTAs and most of the respondents who commented on the question stated that they were not aware of any unique considerations.

55. However a few respondents argued that FTAs should have the option to newly early apply previous versions of IFRS 9 for a longer time period than would be permitted for existing IFRS preparers. That is, these respondents expressed the view that if existing IFRS preparers have a six-month window, FTAs should have *more than* six months to early apply previous versions of IFRS 9. Those respondents noted that entities planning to adopt IFRS over the next couple of years (eg in 2014 and 2015) would likely be in the process of preparing for that adoption and could be assuming that previous versions of IFRS 9 will be available. They also argued that it may not be practical for those FTAs to either adopt the completed version of IFRS 9 within six months after its issue or to first apply IAS 39 and then subsequently apply IFRS 9.

Staff analysis and recommendation

56. The staff note that most respondents who commented on the transition to IFRS 9 supported the proposals in the Limited Amendments ED related to the early application of the completed version and previous versions of IFRS 9 and agreed that those proposals should apply to both existing IFRS preparers and FTAs. Therefore we **recommend that the IASB re-affirm those proposals for the reasons stated in the Basis for Conclusions on the Limited Amendments ED** (discussed in paragraph 47).
57. The staff note that, as described above, a few respondents expressed the view that FTAs should be permitted to early apply previous versions of IFRS 9 for a period longer than six months after the completed version of IFRS 9 is issued. However the staff believe that the most compelling reason to do so—that is, to allow sufficient lead time for transition to IFRS 9—would be alleviated if the IASB agrees with the staff recommendation in the previous section of this paper to provide FTAs with a short-term relief from presenting comparative information that complies with the completed version of IFRS 9. The staff also note that the IASB’s proposal to prohibit entities from newly early applying the previous versions of IFRS 9 was published in July 2012 as part the Limited Amendments ED. As such, we believe that FTAs would have taken that proposal into account when planning their transition to IFRS. Finally, the staff agree with the IASB’s

rationale in the Basis for Conclusions on the Limited Amendments ED, that comparability across entities would be greatly enhanced if entities are permitted to newly early apply *only* the completed version of IFRS 9.

Question 2 for the IASB

Does the IASB agree with the staff recommendation that existing IFRS preparers **and** FTAs:

- (a) Are permitted to early apply the completed version of IFRS 9; and
- (b) Are not permitted to newly early apply a previous version of IFRS 9 if their date of initial application is six months or more after the completed version of IFRS 9 is issued—however, if an entity has early applied a previous version before that six month window expires, the entity is permitted to continue to apply that version until the completed version of IFRS 9 becomes mandatorily effective?

Appendix A: Excerpt from IFRS 1

Exemption from the requirement to restate comparative information for IFRS 9

- E1 In its first IFRS financial statements, an entity that (a) adopts IFRSs for annual periods beginning before 1 January 2012 and (b) applies IFRS 9 shall present at least one year of comparative information. However, this comparative information need not comply with IFRS 7 Financial Instruments: Disclosures or IFRS 9, to the extent that the disclosures required by IFRS 7 relate to items within the scope of IFRS 9. For such entities, references to the ‘date of transition to IFRSs’ shall mean, in the case of IFRS 7 and IFRS 9 only, the beginning of the first IFRS reporting period.
- E2 An entity that chooses to present comparative information that does not comply with IFRS 7 and IFRS 9 in its first year of transition shall:
- (a) apply the recognition and measurement requirements of its previous GAAP in place of the requirements of IFRS 9 to comparative information about items within the scope of IFRS 9.
 - (b) disclose this fact together with the basis used to prepare this information.
 - (c) treat any adjustment between the statement of financial position at the comparative period’s reporting date (ie the statement of financial position that includes comparative information under previous GAAP) and the statement of financial position at the start of the first IFRS reporting period (ie the first period that includes information that complies with IFRS 7 and IFRS 9) as arising from a change in accounting policy and give the disclosures required by paragraph 28(a)–(e) and (f)(i) of IAS 8. Paragraph 28(f)(i) applies only to amounts presented in the statement of financial position at the comparative period’s reporting date.

- (d) apply paragraph 17(c) of IAS 1 to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Appendix B: Excerpt from IFRS 7—Disclosures required for existing IFRS preparers upon initial application of IFRS 9

Note: This text reflects amendments proposed by the IASB's Limited Amendments ED and are shown as tracked changes. New text is underlined and deleted text is struck through.

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 as 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 or, in the case of financial assets, mandatorily measured at fair value through other comprehensive income 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.~~

In the reporting period in which IFRS 9 is initially applied, an entity is not required to disclose the line item amounts that would have been reported in accordance with the classification and measurement requirements of:

- (a) IFRS 9 for period periods; and
- (b) IAS 39 for the current period.

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.