Grant Thornton

Technical Accounting Alert

Financial instruments amendments

Introduction

The IASB has issued the following amendments relating to areas of financial instrument accounting and the AASB is expected to do likewise shortly:

- Mandatory Effective Date of IFRS 9/AASB 9 and Transition Disclosures (Amendments to IFRS 9 (2009), IFRS 9 (2010) and IFRS 7/AASB 7)
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32/AASB 132)
- Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

A summary of each of these amendments is set out below.

Mandatory Effective Date of IFRS 9 and Transition Disclosures

The amendments to IFRS 9 'Financial Instruments' defer the mandatory effective date from 1 January 2013 to 1 January 2015. This means that all the phases of the project to replace IAS 39 will now have the same mandatory effective date.

The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Additional transition disclosures will now be required to help understand the initial application of the Standard.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

1.	the meaning of 'currently has a legally enforceable right of set-off'	• the IASB has clarified that a right of set-off is required to be legally enforceable in the normal course of business, the event of default and the event of insolvency or bankruptcy of the entity and all of the counterparties • the right must also exist for all counterparties.
2.	that some gross settlement systems may be considered equivalent to net settlement	• there was diversity in practice related to the interpretation of 'simultaneous settlement' in IAS 32 • the IASB has therefore clarified the principle behind net settlement and included an example of a gross settlement system with characteristics that would satisfy the IAS 32 criterion for net settlement.

The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively.

Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

The IASB and the FASB had originally intended to introduce common offsetting requirements for IFRSs and US GAAP. In the end, however, the two Boards decided to maintain their respective offsetting models. While they were unable to achieve convergence on common offsetting requirements, they noted that requiring common disclosures would be helpful for users of financial statements.

Accordingly, qualitative and quantitative disclosures have been added to IFRS 7 relating to gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position.

Entities are required to apply the amendments for annual reporting periods beginning on or after 1 January 2013, and interim periods within those annual periods. The required disclosures should be provided retrospectively.

Grant Thornton comment

We welcome the deferral of the mandatory date of IFRS 9. It is important for entities to be able to apply all the phases of the project at the same time and to have an adequate transition period to prepare for the new requirements in them.

While it is disappointing that the IASB and the FASB have not been able to achieve convergence on offsetting, we welcome the publication of common disclosure requirements and the IASB's clarification of IAS 32's requirements for offsetting financial instruments.

Further Information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact member or a member of the National Audit Support team.

Further information is available from Keith Reilly, Grant Thornton's National Head of Professional Standards at keith.reilly@au.gt.com.