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Technical Accounting Alert

IASB issues amendments to IFRS 9 *Financial Instruments*

Introduction

On 19 November 2013, the IASB published a package of amendments (the Amendments) to the accounting requirements of IFRS 9 *Financial Instruments*. The Amendments:

- add a new chapter on hedge accounting to the Standard, substantially overhauling previous accounting requirements in this area;
- allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 to be applied in isolation without the need to change any other accounting for financial instruments; and
- remove the 1 January 2015 mandatory effective date of IFRS 9.

IFRS 9 is replacing IAS 39 *Financial Instruments: Recognition and Measurement* in phases. The publication of these amendments finalises the hedge accounting phase of the IFRS 9 project. The IASB is still considering limited amendments to the classification and measurement requirements already included in IFRS 9 and is working on finalising the new expected credit loss impairment model. It also has a separate active project on accounting for macro hedging which it continues to work on.

The Australian Accounting Standards Board (AASB) is yet to issue the equivalent amendments to AASB 9 *Financial Instruments*.

The Amendments

Hedge accounting

The new chapter added to IFRS 9 on hedge accounting represents a major overhaul to the accounting requirements in this area.

Prior to the Amendments, the hedge accounting requirements were contained in IAS 39. The hedge accounting requirements in that Standard were however criticised for not allowing entities to adequately reflect their risk management practices and for not providing sufficient information in the financial statements about those activities.

The new requirements look to align hedge accounting more closely with entities' risk management activities by:

- increasing the eligibility of both hedged items and hedging instruments; and
- introducing a more principles-based approach to assessing hedge effectiveness.

The IASB believes that entities hedging non-financial risks (such as non-financial institutions) will benefit the most from these changes. In addition, the Amendments include additional disclosures which are aimed at improving the information provided about an entity's hedge accounting and risk management strategy.

Own credit risk

Where an entity chooses to measure its own debt at fair value, IFRS 9 requires the amount of the change in fair value due to changes in the entity's own credit risk to be presented in other comprehensive income. This requirement, which was introduced in October 2010, addressed the counter-intuitive way in which a company in financial trouble was previously able to recognise a gain based on its theoretical ability to buy back its own debt at a reduced cost.

Up until now however an entity wishing to apply this requirement was required to also apply all of the requirements in IFRS 9 that relate to the classification and measurement of financial instruments. The Amendments enable entities to apply this part of IFRS 9 before applying any of the other requirements in IFRS 9.

Removal of the 1 January 2015 mandatory effective date

The 1 January 2015 mandatory effective date of IFRS 9 has been removed to provide sufficient time for entities to make the transition to the new requirements. The IASB will decide upon a new date when the entire IFRS 9 project is closer to completion. Entities may still apply IFRS 9 immediately if they choose to however.

Grant Thornton comment

We welcome the publication of these Amendments. The new hedge accounting requirements should make it easier for many entities to reflect their actual risk management activities in their hedge accounting and so reduce profit or loss volatility, while allowing entities to apply IFRS 9's requirements on own credit without having to apply any of its other requirements is likely to be a popular change with preparers.

Delaying the mandatory effective date meanwhile is a pragmatic decision which reflects the fact that important questions on impairment and classification and measurement are still being debated as we approach 2014.

Further information

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