



## IFRS 9: New mandatory effective date and transition disclosures

January 2012

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## What you need to know

- ▶ The IASB has issued amendments to IFRS 9 which move the mandatory effective date from 1 January 2013 to 1 January 2015. Earlier application continues to be permitted.
- ▶ The amendments no longer require restatement of comparative figures. Instead, IFRS 7 has been amended to require additional disclosures on transition from IAS 39 to IFRS 9. The new disclosures are either required or permitted on the basis of the entity's date of transition.

## Overview

In December 2011, the International Accounting Standards Board (IASB) issued *Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 Financial instruments and IFRS 7 Financial instruments: Disclosures)*.

The following changes now apply:

- ▶ Entities must apply IFRS 9 for annual periods beginning on or after 1 January 2015. Earlier application continues to be permitted.
- ▶ The restatement of comparative period financial statements upon initial application of the classification and measurement requirements of IFRS 9 is no longer required. Instead, the amendments introduce additional disclosures on transition from the classification and measurement requirements of IAS 39 *Financial Instruments: Recognition and Measurement* to those of IFRS 9.

For entities adopting IFRS 9 from 2013 onwards, these disclosures are required even if they choose to restate the comparative figures for the effect of applying IFRS 9.

## Background

The IASB has undertaken the project to replace IAS 39 in several phases. The first phase of the project addressed the classification and measurement of financial instruments and resulted in the issue of IFRS 9 for financial assets in 2009 and financial liabilities in 2010.

Prior to these amendments, IFRS 9 had an effective date for annual periods beginning on or after 1 January 2013, and required the presentation of comparative figures unless the standard is adopted before 2012.

In August 2011, the IASB published *Exposure Draft - Mandatory Effective Date of IFRS 9* (the ED). The ED proposed: (a) to move the mandatory effective date of IFRS 9 to 1 January 2015 from 1 January 2013; and (b) to provide no relief from restatement of comparative figures to periods beginning on or after 1 January 2012. The proposals have been driven by delays in the timeline for completion of the remaining phases of the project to replace IAS 39, feedback received from constituents, and the IASB's stated intention to allow entities to adopt the full suite of IFRS 9 at the same time.

In its redeliberations on the ED in November 2011, the IASB decided to confirm its decision to move the mandatory effective date of IFRS 9. In doing so, the IASB noted that there are still compelling reasons to pursue an approach of requiring the same effective date for all phases of this project. However, the IASB also noted that it is difficult to assess the amount of lead time that will be necessary to implement all phases of the project because the entire project to replace IAS 39 is not yet complete. The IASB concluded that this may ultimately affect the appropriateness of requiring the same mandatory effective date for all phases of this project.

## How we see it

We welcome the amendments to IFRS 9. In addition to allowing entities more time to make the necessary system changes and to prepare adequately for transition, the amendments will potentially permit entities to implement all of the phases of the IAS 39 replacement project concurrently. This addresses a concern raised by preparers that they would like to be able to evaluate their classification and measurement decisions, such as the use of the fair value option, in light of the new impairment and hedge accounting requirements.

The change in the mandatory effective date will also potentially align the effective date of IFRS 9 with the effective date of other forthcoming standards, such as the revised IFRSs on insurance contracts, revenue recognition and leasing.

The change will help address concerns about the delay of endorsement of phase 1 of IFRS 9 (classification and measurement) by the European Union (EU). This is particularly the case for SEC filers who are required to report in accordance with IFRS as issued by the IASB. Absent this change and until IFRS 9 is endorsed by the EU, from 2013 these entities would have been required to prepare two sets of financial statements: one set in compliance with IFRS as issued by the IASB for SEC filings, including comparative information for the two previous years; and another in compliance with IFRS as endorsed by the EU.

Prompted by the feedback it received on the ED and through outreach activities, the IASB also considered whether modified transition disclosures could provide the necessary information for investors to understand the effect of transition from IAS 39 to IFRS 9, while reducing the burden on preparers from the requirement to restate comparative figures. The IASB also considered whether this approach would address concerns about the diminished usefulness and period-to-period comparability of financial statements due to:

- (i) The different transition requirements of each phase of the project to replace IAS 39 (for example, the classification and measurement phase requires retrospective application, whereas the hedge accounting phase requires prospective application)

And

- (ii) The specific transition requirements of the classification and measurement phase. These included the requirement not to apply IFRS 9 in the comparative financial statements to items derecognised prior to the date of initial application (DoIA), the requirement to determine the business model based on facts and circumstances as at the DoIA and the permission to elect or revoke the use of the fair value option as at the DoIA.

As a result of these considerations, the IASB decided to require modified transition disclosures instead of the restatement of comparative figures.

## Disclosures on transition to IFRS 9

Entities are required to disclose, as at the DoIA, the changes in the classification of financial assets and financial liabilities, showing separately:

- (a) Reclassifications, based on the carrying amounts measured in accordance with IAS 39

And

- (b) The changes in the carrying amounts arising from a change in measurement on transition to IFRS 9

The reclassifications and remeasurements on adoption of IFRS 9 must be disclosed not only by measurement category, but also for each line of the statement of financial position and by class of financial instrument. An example of this disclosure is included in the Appendix.

In addition, in the reporting period in which IFRS 9 is initially applied, entities will be required to disclose the following for financial assets and financial liabilities that have been reclassified to amortised cost on 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 DoIA (on the grounds of impracticability), the disclosures in (c) and (d) above must be made for each reporting period following reclassification until derecognition.

In developing these new transition disclosures, the IASB noted that the disclosures provide useful information to investors on transition from IAS 39 to IFRS 9, irrespective of whether or not the comparative financial statements are restated. The IASB also believes that the burden of these transition disclosures for preparers will not be unreasonable as they are based largely on existing disclosure requirements, and will make use of information which should already be available as a result of preparing for transition. Accordingly, the IASB decided to require these disclosures even if comparative financial statements are restated.

However, the IASB did not want to unduly burden those who were in the process of applying IFRS 9 early by requiring disclosures that the entity was not previously required to provide. Therefore, for entities that initially apply the classification and measurement requirements in 2012, the IASB decided to permit, but not require, the presentation of the transitional disclosures. If an entity elects to provide these disclosures when initially applying IFRS 9 in 2012, it will not be required to restate comparative periods. Entities applying IFRS 9 before 1 January 2012 are neither required to provide the new disclosures nor are they required to restate prior periods.

## Transition adjustments

If an entity does not restate prior periods, it must recognise any difference between the previous reported carrying amounts and the new carrying amounts of financial assets and liabilities at the beginning of the annual reporting period that includes the DoIA in opening retained earnings (or other component of equity, as appropriate).

### How we see it

The amendments provide many preparers with a significant relief from the burden of restating comparatives, particularly those who are required by their regulator to publish more than one year of comparative information. For entities taking advantage of this relief, the amendments will also alleviate many of the concerns over the implementation issues arising from certain transition requirements in IFRS 9.

## Appendix – illustrative example

The following example illustrates how the transition disclosures may look like in practice:

### Example

Assume the following:

- Entity ABC plans to adopt IFRS 9 at 1 January 2015. This is the DoIA as defined by paragraph 7.2.2 of IFRS 9).
- At 31 December 2014, the carrying amounts of the financial instruments held by ABC in each of the IAS 39 measurement categories were as follows:

Measurement category	Balance as at 31 December 2014 (CU'000)
<b>Financial assets</b>	
Fair value through profit and loss	150
Fair value through other comprehensive income (available for sale)	180
Amortised cost	300
<b>Total</b>	<b>630</b>
<b>Financial liabilities</b>	
Fair value through profit and loss	160
Amortised cost	100
<b>Total</b>	<b>260</b>

- At 31 December 2014, ABC does not hold any investments in equity instruments.
- At 31 December 2014, the entity does not hold any investment in hybrid/compound contracts.
  - None of the financial assets is impaired at 31 December 2014.
  - The line items in ABC's statement of financial position are consistent with the measurement categories and (to simplify the example) for each category ABC has only one class of financial instrument.

### Reclassifications on transition

On transition to IFRS 9 at 1 January 2015, ABC makes the following required or elected reclassifications of financial assets and financial liabilities have (before taking into account any remeasurement adjustments):

#### Financial assets

(CU'000)	Reclassified into		
	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income
Fair value through profit or loss	–	80	–
Available for sale (AFS)	50	130	–
Amortised cost (required reclassification)	70	–	–
Amortised cost (fair value option elected at 1 January 2015)	60	–	–
<b>Total</b>	<b>180</b>	<b>210</b>	<b>–</b>

### Financial liabilities

(CU'000)	Reclassified into	
Measurement category	Fair value through profit or loss	Amortised cost
Fair value through profit or loss (fair value option revoked at 1 January 2015)	–	80
Amortised cost (fair value option elected at 1 January 2015)	50	–
<b>Total</b>	<b>50</b>	<b>80</b>

### Measurement adjustments on transition

The measurement adjustments upon reclassification of financial assets and liabilities from the IAS 39 measurement categories into those of IFRS 9 are as follows, where the use of brackets '( )' indicates a reduction in carrying amount:

### Financial assets

(CU'000)	Reclassified into		
Measurement category	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income
Fair value through profit or loss	N/A	25	N/A
Available for sale (AFS)	N/A*	(20)**	N/A
Amortised cost (required reclassification)	(15)	N/A***	–
Amortised cost (fair value option elected at 1 January 2015)	(20)	N/A	–

\* Upon transition, the balance in accumulated other comprehensive income OCI was CU 5. This is reclassified from OCI to retained earnings.

\*\* Upon transition, the balance in accumulated OCI of CU 20 is reversed.

\*\*\* Note that it may also be necessary to adjust the carrying amount for instruments that were previously reclassified to amortised cost using the 2008 amendment to IAS 39 at their fair values at that time, and now are adjusted as if they had always been recorded at amortised cost.

### Financial liabilities

(CU'000)	Reclassified into	
Measurement category	Fair value through profit or loss	Amortised cost
Fair value through profit or loss (fair value option revoked at 1 January 2015)	–	15
Amortised cost (fair value option elected at 1 January 2015)	(10)	–

## Illustrative transition disclosures

The following table, adapted from the amendments, illustrates one possible method of applying the additional quantitative disclosures on transition from the classification and measurement requirements of IAS 39 to those of IFRS 9. The effects of tax, including deferred tax, have been ignored. Amounts in brackets '( )' are reductions in the recorded balances.

### Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2015

#### Financial assets

Measurement category	(i) IAS 39 carrying amount 31 December 2014	(ii) Re-classifications	(iii) Remeasurements	(iv)=(i)+(ii)+(iii) IFRS 9 carrying amount 1 January 2015	Retained earnings effect on 1 January 2015	OCI effect on 1 January 2015
<b>Fair value through profit or loss</b>	<b>150</b>			<b>150</b>		
<i>Additions:</i>						
From available for sale (IAS 39)		50	-	50	5	(5)
From amortised cost (IAS 39) - required reclassification		70	(15)	55	(15)	-
From amortised cost (IAS 39) - fair value option elected at 1 January 2015		60	(20)	40	(20)	-
<i>Subtractions:</i>						
To amortised cost (IFRS 9)		(80)	-	(80)	-	-
<b>Total change to fair value through profit or loss</b>		<b>100</b>	<b>(35)</b>	<b>65</b>	<b>(30)</b>	<b>(5)</b>
<b>Fair value through profit or loss balances, reclassifications and remeasurements at 1 January 2015</b>	<b>150</b>	<b>100</b>	<b>(35)</b>	<b>215</b>	<b>(30)</b>	<b>(5)</b>
<b>Fair value through other comprehensive income</b>	<b>180</b>	-	-	<b>180</b>	-	-
<i>Additions:</i>						
From fair value through profit or loss (fair value option under IAS 39) - fair value through other comprehensive income elected at 1 January 2015		-	-	-	-	-
From cost (IAS 39)		-	-	-	-	-
<i>Subtractions:</i>						
Available for sale (IAS 39) to fair value through profit or loss (IFRS 9)		(50)	-	(50)	-	-
Available for sale (IAS 39) to amortised cost (IFRS 9)		(130)	-	(130)	-	-
<b>Total change to fair value through other comprehensive income</b>		<b>(180)</b>	<b>-</b>	<b>(180)</b>	<b>-</b>	<b>-</b>
<b>Fair value through other comprehensive income balances, reclassifications and remeasurements at 1 January 2015</b>	<b>180</b>	<b>(180)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2015 (continued)**

**Financial assets**

Measurement category	(i) IAS 39 carrying amount 31 December 2014	(ii) Re-classifications	(iii) Remeasurements	(iv)=(i)+(ii)+(iii) IFRS 9 carrying amount 1 January 2015	Retained earnings effect on 1 January 2015	OCI effect on 1 January 2015
<b>Amortised cost</b>	<b>300</b>			<b>300</b>		
<b>Additions:</b>						
From available for sale (IAS 39) (a)		130	(20)	110	-	(20)
From fair value through profit or loss (IAS 39) – required reclassification (b)		80	25	105	25	-
From fair value through profit or loss (IAS 39) – fair value option revoked as at 1 January 2015		-	-	-	-	-
<b>Subtractions:</b>						
To fair value through profit or loss (IFRS 9) - required classification		(70)	-	(70)	-	-
To fair value through profit or loss (IFRS 9) – fair value option elected at 1 January 2015		(60)	-	(60)	-	-
<b>Total change to amortised cost</b>		<b>80</b>	<b>5</b>	<b>85</b>	<b>25</b>	<b>(20)</b>
<b>Amortised cost balances, reclassifications and remeasurements at 1 January 2015</b>	<b>300</b>	<b>80</b>	<b>5</b>	<b>385</b>	<b>25</b>	<b>(20)</b>
<b>Total financial asset balances, reclassifications and remeasurements at 1 January 2015</b>	<b>630</b>	<b>-</b>	<b>(30)</b>	<b>600</b>	<b>(5)</b>	<b>(25)</b>

(a) The effective interest rate at the date of reclassification is 4.5%. The fair value of these assets at 31 December 2015 is CU 125. Had these assets not been reclassified, a loss of CU 5 would have been recognised in OCI for the year. Total interest income recognised during the year is CU 5.

(b) The effective interest rate at the date of reclassification is 5.5%. Fair value of these assets at 31 December 2015 is CU 70. Had these assets not been reclassified, a loss of CU 10 would have been recognised in profit or loss. Total interest income recognised during the year is CU 6.

**Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2015 (continued)**

**Financial liabilities**

Measurement category	(i) IAS 39 carrying amount 31 December 2014	(ii) Re-classifications	(iii) Remeasurements	(iv)=(i)+(ii)+(iii) IFRS 9 carrying amount 1 January 2015	Retained earnings effect on 1 January 2015
<b>Fair value through profit or loss</b>	<b>160</b>			<b>160</b>	
<i>Additions:</i>					
From amortised cost (IAS 39) – fair value option elected at 1 January 2015		50	(10)	40	10
<i>Subtractions:</i>					
To amortised cost (IFRS 9) – fair value option revoked at 1 January 2015		(80)	–	(80)	–
<b>Total change to fair value through profit or loss</b>		<b>(30)</b>	<b>(10)</b>	<b>(40)</b>	<b>10</b>
<b>Fair value through profit or loss balances, reclassifications and remeasurements at 1 January 2015</b>	<b>160</b>	<b>(30)</b>	<b>(10)</b>	<b>120</b>	<b>10</b>
<b>Amortised cost</b>	<b>100</b>	–	–	<b>100</b>	–
<i>Additions:</i>					
From fair value through profit or loss (IAS 39) – required reclassification		–	–	–	–
From fair value through profit and loss (IAS 39) – fair value option revoked at 1 January 2015 (c)		80	15	95	(15)
<i>Subtractions:</i>					
To fair value through profit or loss (IFRS 9)		–	–	–	–
Fair value option elected at 1 January 2015		(50)	–	(50)	–
<b>Total change to amortised cost</b>		<b>30</b>	<b>15</b>	<b>45</b>	<b>(15)</b>
<b>Amortised cost balances, reclassifications and remeasurements at 1 January 2015</b>	<b>100</b>	<b>30</b>	<b>15</b>	<b>145</b>	<b>(15)</b>
<b>Total financial liability balances, reclassifications and remeasurements at 1 January 2015</b>	<b>260</b>	–	<b>5</b>	<b>265</b>	<b>(5)</b>
<b>Total change to retained earnings at 1 January 2015</b>	–	–	–	–	<b>(10)</b>
<b>Total change to OCI at 1 January 2015</b>	–	–	–	–	<b>(25)</b>

(c) The effective interest rate at the date of reclassification is 3.0%. The fair value of these liabilities at 31 December 2015 is CU 78. Had these liabilities not been reclassified, a gain of CU 2 would have been recognised in OCI. Total interest expense recognised during the period is CU 3.

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