

IFRS Developments

IFRS 9: Financial Instruments

IFRS 9 mandatory effective date to move to 2015

What you need to know

- ▶ The International Accounting Standards Board (IASB) has tentatively decided to move the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015, with earlier application permitted.
- ▶ The IASB plans to publish the proposed change in an exposure draft which will have a comment period of 60 days.

Overview

In response to feedback received from constituents and its prior intention to allow entities to adopt IFRS 9 *Financial Instruments*, the replacement of IAS 39 *Financial Instruments: Recognition and Measurement*, in one package, the International Accounting Standards Board (IASB) has tentatively decided to move the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015, with earlier application permitted.

This tentative decision does not address the transition provisions or specific transition issues for any phase of the project, including the requirement not to apply IFRS 9 to items that have already been derecognised at the date of initial application, which the IASB has indicated it may reconsider. Nor does it address how the effective date of IFRS 9 should relate to the effective dates of other projects. These aspects will be addressed by the IASB at a later date.

The IASB plans to publish the proposed change in an exposure draft which will have a comment period of 60 days.

Background

IFRS 9, as currently drafted, is required to be applied for annual periods beginning on or after 1 January 2013 including the presentation of comparative figures.

On 19 October 2010, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) (collectively, 'the Boards') issued separate documents seeking input on the effective dates and transition methods for several new standards, primarily those that are being jointly developed by the Boards.

The objective of the IASB document *Request for Views on Effective Dates and Transition Methods* (the 'Request for Views') was to gather feedback to help the IASB establish appropriate effective dates and transition methods for the several new IFRSs. The key themes of the resulting feedback received were that constituents (including regulators) would prefer:

- a) Sufficient lead time after the finalisation of the last phase of IFRS 9; and
- b) A single effective date for all the phases of IFRS 9, as well as the revised IFRSs on insurance contracts, revenue recognition, and/or leasing projects.

Impact of the proposed change

In addition to allowing entities sufficient time to make the necessary system changes and to prepare adequately for transition, the proposed amendment will permit entities to implement all 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 proposed change will also potentially align the effective date of IFRS 9 with the effective date of other new standards such as those already mentioned.

The movement of the mandatory effective date will also help address concerns about the delay of endorsement of phase 1 of IFRS 9 (classification and measurement) by the European Union. 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, these entities would be required to prepare two sets of financial statements – one set in compliance with IFRSs as issued by the IASB for the SEC – including comparative information for the two previous years and another in compliance with IFRS as endorsed by the EU.

The proposal will also allow the IASB sufficient time to fulfil its prior intention to expose the FASB's final standard on classification and measurement of financial instruments for comment by its constituents.

How we see it

We fully support the IASB's tentative decision to move back the mandatory effective date of IFRS 9. If adopted as proposed, this change will be welcomed by most reporting entities.

Notwithstanding the above decision to change the effective date of IFRS 9, we strongly encourage entities to continue their efforts to prepare for the transition for the following reasons:

- i) IFRS 9 will have a major impact on the financial statements, key performance indicators, tax and regulatory capital. Entities need to be able to understand the implications of phase 1 and the proposals for impairment and hedge accounting in sufficient detail to be able to factor them into strategic decision making, respond to the proposals, and engage with regulators for the appropriate tax and regulatory capital treatment.
- ii) For many entities, implementation of the new standard, especially the new impairment requirements, will require significant systems development which will take a number of years to implement. For SEC regulated entities, even with a 2015 effective date, the first comparative period begins in only eighteen months at January 1, 2013.

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