IASB to defer effective date of IFRS 9 and accelerate own credit requirements

What you need to know

- The IASB has tentatively decided to defer the mandatory effective date of IFRS 9 until the issue date of the completed version of IFRS 9 is known.
- The IASB tentatively decided that the own credit requirements should be made available for early application before the completed version of IFRS 9 is issued.

Overview

At the IASB\(^1\) meeting in July 2013, the IASB tentatively decided to:

1. Defer the mandatory effective date of IFRS 9 and that the mandatory effective date should be left open pending the finalisation of the impairment and classification and measurement requirements. IFRS 9 would still be available for early application.

2. Accelerate the application of the ‘own credit’ requirements of IFRS 9 by making them available separately from the other requirements of IFRS 9. As such, the IASB will amend the effective date paragraphs of IFRS 9 as soon as possible. Consequently, entities could early apply these requirements without having to apply IFRS 9 to their financial assets at the same time (if those have not been applied already).

At an earlier joint meeting, both the IASB and the FASB\(^2\) (collectively, the Boards) were briefed by their staffs on the outline plan for the upcoming joint re-deliberations on the classification and measurement proposals. No decisions were made.

In this issue, we summarise the key decisions made at the IASB’s meeting and provide some background on the underlying considerations that led to these decisions.

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\(^1\) The International Accounting Standards Board or the Board.

\(^2\) The US Financial Accounting Standards Board.
**Mandatory effective date**

The IASB has received consistent feedback from many constituents urging the Board to confirm, as soon as possible, its intention to defer the mandatory effective date of IFRS 9, particularly because of the lead time needed to implement the proposed new impairment requirements.

The IASB agreed with the feedback. However, it noted that it will only be able to determine an exact mandatory effective date after the re-deliberations on impairment and classification and measurement have been completed. Accordingly, the Board confirmed that the current mandatory effective date of 1 January 2015 will be deferred. However, instead of specifying a new effective date, the IASB will allow reporting entities to apply IFRS 9 at the start of any reporting period until the issue date of the final version of IFRS 9 is known.

This ‘indefinite’ deferral would take effect with the issuance of IFRS 9 (2013) which will introduce the chapter on hedge accounting in IFRS 9. The existing versions of IFRS 9 would also be amended. The Basis for Conclusions to IFRS 9 (2013) would explain that the mandatory effective date will be determined when the outstanding phases of IFRS 9 (excluding accounting for macro hedging) are finalised. The Basis for Conclusions would also indicate that sufficient lead time will be provided following the issuance of the final version of IFRS 9. However, the appropriate lead time period will be determined at a later stage.

**How we see it**

In light of the status of the IASB’s progress on the impairment project, we do not expect the final mandatory effective date to be any earlier than 2016.

**Acceleration of the application of ‘own credit’ requirements in IFRS 9 before the completed version of IFRS 9 is issued**

IFRS 9 (2010) requires that when a financial liability is designated as at fair value through profit or loss under the fair value option, the change in the fair value of the liability attributable to changes in the issuer’s own credit risk should be recognised in other comprehensive income (OCI). IFRS 9 further requires that amounts presented in OCI will not subsequently be reclassified (recycled) to profit or loss.

The IASB has decided to accelerate the early application of the own credit requirements by making these requirements available separately from any other requirements of IFRS 9. The IASB plans to achieve this by modifying the effective date paragraphs of IFRS 9 (2013) to permit reporting entities that have not already applied IFRS 9 (2010) to apply the own credit risk related paragraphs early, but without the need to apply early any of the other requirements of IFRS 9 (2013). The same modification will be made to the effective date paragraphs of IFRS 9 (2010), which currently require the application of the other requirements of that standard, in particular, those in relation to financial assets, at the same time (if not applied already).

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3 This version of IFRS 9 is expected to be published in the next few months.
5 Paragraphs 5.7.7 - 5.7.9.
6 If the presentation of changes in the liability’s credit risk were to create or enlarge an accounting mismatch, IFRS 9 (2010) requires the gains or losses on that liability to be presented in profit or loss. However, the circumstance in which this would occur is expected to be rare.
Taking this approach, the IASB believes that a jurisdiction that only wants to adopt the own credit related accounting requirements could adopt (or endorse, as applicable) IFRS 9 and activate only the effective date paragraph relevant to own credit related accounting. This enables a jurisdiction to make the own credit related accounting requirements available, even if it is not ready to adopt IFRS 9 in full. If a jurisdiction took this approach prior to the mandatory effective date of IFRS 9, it would not contradict IFRS 9 as published by the IASB because that would also allow entities to only adopt the changes for own credit related accounting.

It is worth noting that the IASB agreed with the staff recommendation not to pursue the alternative approach (which had been supported by many constituents) of incorporating the own credit related accounting requirements in IAS 39 Financial Instruments: Recognition and Measurement. Furthermore, the IASB agreed with the recommendation that it should not, for the time being, reconsider the requirement that prohibits recycling of own credit gains and losses to profit or loss.

Next steps
In a joint session with the FASB, both staffs presented the Boards with an outline plan for the upcoming joint re-deliberations on classification and measurement. The plan has been developed on the basis of the feedback received on the IASB’s exposure draft on Classification and Measurement: Limited Amendments to IFRS 9\(^7\) and the FASB’s proposed Accounting Standards Update Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815).\(^8\)

The plan also reflects the fact that the boards had different starting points in the joint deliberations and, therefore, different scope of their respective proposals. Accordingly, some of the topics will be re-deliberated jointly, whereas others will be re-deliberated separately. The table on the following page provides a summary of the plan.

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\(^7\) Published in November 2012

\(^8\) Published in May 2013
### Summary of the plan for the September 2013 meeting

#### Contractual cash flow characteristics assessment

Both staffs will ask the Boards whether they would like to clarify various aspects of the contractual cash flow characteristics assessment, including:

- The objective of amortised cost measurement and the fundamental principles underpinning the payments of solely principal and interest condition.
- The meaning of ‘principal’ and ‘interest’, including the meaning of ‘time value of money’.
- The application of the solely principal and interest condition to particular features, including: (a) de minimis features (i.e., features that can only ever have a de minimis effect on the contractual cash flows); and (b) contingencies (including those that are unlikely to occur) and prepayment/extension features.

#### Business model assessment

In light of the feedback received, the staffs will ask whether the Boards would like to consider:

- Retaining three classification and measurement categories for financial assets.
- The articulation of the objectives for the business models and related issues (such as which category is the residual and whether the classification consequences of business models should be mandatory or optional in particular circumstances).
- Enhancements to, and the potential for further alignment of, the application guidance on determining the business model within which financial assets are managed.

### At subsequent meetings

#### Contractual cash flow characteristics assessment

The boards will be asked to consider the feedback on other issues related to the contractual cash flow assessment.

#### Business model assessment

The Boards will be asked whether they would like to reconsider or confirm particular aspects of their respective proposals on reclassification of financial assets upon a change in the business model.

### Other topics:

The staffs will ask the Boards:

- Whether they would like to confirm their respective proposals on the fair value option (FVO), or whether they would like to align their positions more closely and/or consider changes to when the FVO may be available.
- To discuss any additional interrelated issues that may arise from the joint re-deliberations.

### IASB classification and measurement project timeline

The staff anticipates that re-deliberations on the joint topics, as well as the IASB-only re-deliberations, will be substantially completed by the end of 2013.