New on the Horizon: Classification and Measurement – Proposed limited amendments to IFRS 9

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Proposals limited in name only

The IASB’s proposed limited amendments to IFRS 9 Financial Instruments on classification and measurement come as a welcome step towards completing its plan to reform financial instruments accounting under IFRS. The project is a joint one with the FASB, and responds to calls from the G20 for a single set of high-quality global accounting standards.

The proposals introduce a new measurement category for financial assets that are simple debt instruments and that are managed both in order to collect contractual cash flows and for sale – such as some bond investment portfolios. This new category will require the asset to be measured at fair value, with fair value changes being recognised outside profit or loss and in other comprehensive income (OCI). Some financial assets that an entity previously expected to measure at amortised cost under the existing IFRS 9 model may have to be classified in this new category – which may result in increased volatility in reported equity and, for financial institutions, regulatory capital. The introduction of this category is also intended to dovetail with the IASB’s insurance project, and its tentative decision that changes in insurance liabilities driven by changes in discount rates should also be included in OCI.

The proposals also introduce a more judgemental ‘modified economic relationship test’ to assess whether financial assets contain contractual cash flows that are ‘solely payments of principal and interest’. This may help to address certain application issues, especially when there are interest rate mismatches. However, the lack of an exception to this test may be disappointing news for banks operating in jurisdictions where interest rates may be regulated or established by applicable laws. Loan assets with regulated interest rates may fail the test and, as a result, be required to be measured at fair value through profit or loss (FVTPL).

In another significant change introduced by the proposals, entities would be allowed to early apply the own credit requirements in IFRS 9 for financial liabilities measured under the fair value option, without having to early apply IFRS 9 in its entirety. Currently, IAS 39 Financial Instruments: Recognition and Measurement requires the impact of changes in own credit risk on these liabilities to be recognised in profit or loss – potentially leading to a large boost in an entity’s profits when its creditworthiness deteriorates. Under IFRS 9, these gains and losses would also be included in OCI rather than reported profits. This will be good news for many constituents who view the own credit requirements introduced in IFRS 9 as a significant step towards enhancing the quality and reputation of IFRS. However, early adoption would still not be available to entities in the EU, unless and until the EU endorses the new standard – which is unlikely to be soon.

Companies, and in particular financial institutions, should start re-looking at their financial assets and at how the proposals might impact them. Although these amendments are labelled ‘limited’, they could have far-reaching implications for an entity’s financial reporting.

The proposals are out for consultation until 28 March 2013. We hope this publication will help you to understand the proposals and formulate your own response.

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KPMG’s global IFRS Financial Instruments leadership team
KPMG International Standards Group
1. **Key facts**

- The IASB has exposed its proposed limited amendments to IFRS 9 *Financial Instruments* for public comment.

- The ED introduces:
  - a new fair value through other comprehensive income (FVOCI) measurement category for financial assets (debt instruments);
  - a new business model and new application guidance on applying the business model concept; and
  - a ‘modified economic relationship’ test for some financial assets.

- The existing reclassification requirements in IFRS 9 would be extended to the FVOCI measurement category.

- **Effective date and transition**
  - The proposals would be effective for annual periods beginning on or after 1 January 2015.
  - Six months after IFRS 9 is finalised – i.e. after the completion of the classification and measurement, impairment and general hedge accounting chapters – entities that newly apply IFRS 9 before the mandatory effective date would be required to apply IFRS 9 in its entirety.
  - However, entities would be permitted to early apply only the own credit requirements for financial liabilities measured under the fair value option, without having to early apply IFRS 9 in its entirety.

**Observations – Key sectors impacted**

Banks, insurance companies and other financial institutions are expected to be most affected by the limited amendments.
2. How this could impact you

New judgements to be made on classification and measurement

- The proposals introduce an FVOCI measurement category with another business model definition. This may result in new judgements, to ensure that financial assets are classified in the appropriate category (see 6.1).

- The modified economic relationship test would require more judgement, in terms of both identifying a ‘benchmark’ instrument and determining whether cash flows in a modified relationship could be ‘more than insignificantly different’ (see 7.1).

Changes in profit or loss volatility are likely

- The limited amendments may have a significant impact on how financial assets will be classified and measured, and as a result, may give rise to a change in profit or loss volatility. However, the direction of that change would depend on how the financial assets would be classified and measured under the current and proposed requirements (see 6.5).

- Early application of the own credit requirements would help to reduce profit or loss volatility sooner than would otherwise be possible (see 11.1).

Regulatory capital requirements may be impacted

- Under the international Basel framework for banks, many asset measures used in calculating regulatory capital resources and capital requirements are based on the entity’s financial statements (see 5.2).

- The proposed limited amendments may have a significant impact on the computation of an entity's capital resources and capital requirements. For example, assets that an entity may previously have expected to measure at amortised cost may be required to be measured at FVOCI, with any unrealised fair value changes adjusting its regulatory capital (see 5.2).

There may be unexpected consequences

- Profit or loss volatility may be reduced in situations where entities hold financial assets in business models that have no trading intent, but have greater sales activity, in terms of frequency and volume of sales, compared to business models whose objective is to hold financial assets solely to collect contractual cash flows (see 6.5).

- If loans with interest rates subject to regulation fail to satisfy the necessary criteria, they will need to be measured at FVTPL (see 7.1).

Transition requirements/preparation

- Entities that have already applied, or are planning to early apply, IFRS 9 (2009) and/or IFRS 9 (2010) may have to re-engineer the conversion process to take into account these proposals (see 6.5).
3. Setting the standard

Since November 2008, the IASB has been working to replace its financial instruments standards with an improved and simplified standard.

The IASB issued IFRS 9 (2009) and IFRS 9 (2010), which contain the requirements for the classification and measurement of financial assets and financial liabilities. The project will also include new requirements on hedge accounting and impairment. A final standard on a general hedge accounting model and new proposals on impairment are expected in 2013. IFRS 9 (2009) and (2010) have an effective date of 1 January 2015.

On 28 November 2012, the IASB published ED/2012/4 Classification and Measurement: Limited Amendments to IFRS 9 (Proposed amendments to IFRS 9 (2010)) (the ED). The ED proposes limited amendments to IFRS 9 (2010) on the classification and measurement of financial assets and financial liabilities. The comment deadline for the ED is 28 March 2013.

The ED introduces a new FVOCI measurement category for financial assets, and the IASB’s reasons for this include the following.

- Responding to constituents’ concerns over business models where both amortised cost and fair value information are relevant. This may address certain application issues – e.g. reducing profit or loss volatility for some portfolios where sales may be frequent but the entity has no trading intent.
- Reducing key differences with the FASB’s model. The FASB’s tentative classification and measurement model already contains an FVOCI category for debt instruments.
- Interaction with the insurance contracts project. In the insurance project, the IASB has tentatively decided that changes in insurance liabilities driven by changes in discount rates should be presented in OCI. Introducing an FVOCI measurement category for certain financial assets may help to reduce accounting mismatches.

The ED also includes application guidance, to:

- help entities distinguish between the different types of business models – in particular, to understand how the frequency and significance of actual and expected asset sales affect the assessment; and
- address application issues for particular financial assets containing features that modify the relationship between principal and interest – e.g. interest rate mismatches.

The effective date for the version of IFRS 9 including these proposed limited amendments remains unchanged at 1 January 2015. Also, under the ED, six months after IFRS 9 is finalised – i.e. after completion of the classification and measurement, impairment and general hedge accounting chapters – entities that newly apply IFRS 9 before the mandatory effective date would be required to apply IFRS 9 in its entirety.

However, the ED seeks to address more rapidly concerns about the usefulness of reporting gains when an entity is experiencing own credit deterioration. It would therefore permit entities to early apply only the own credit requirements for financial liabilities measured under the fair value option, without having to early apply IFRS 9 in its entirety.

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1 For more information about the financial instruments replacement project, please refer to the IFRS – financial instruments hot topics page on our KPMG Global IFRS Institute website.
2 For more information about the general hedge accounting draft, please refer to our publication New on the Horizon: Hedge Accounting, (September 2012).
4. Introduction

The amended criteria for the classification and measurement of financial assets are summarised in the following flow diagram. The diagram also maps each stage in the financial asset measurement category assessment to the relevant section in this publication.

* Subject to an entity’s option to designate such a financial asset at FVTPL on initial recognition if, and only if, such designation eliminates or significantly reduces a measurement or recognition inconsistency.
5. **Financial asset measurement categories**

5.1 The existing measurement categories

*IFRS 9.4.1–2, 4.1.4* Currently under IFRS 9 (2010), there are two primary measurement categories for financial assets: amortised cost and FVTPL. A financial asset is measured at amortised cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest (the ‘SPPI test’).

All other financial assets are measured at fair value, with changes in fair value recognised in profit or loss.

*IFRS 9.4.1.5* Furthermore, an entity may, at initial recognition, irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency – i.e. an ‘accounting mismatch’ that would otherwise arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

*IFRS 9.5.7.5* Additionally, at initial recognition an entity may elect to present in OCI subsequent changes in the fair value of an investment in an equity instrument that is not held for trading. This election is irrevocable.

5.2 The FVOCI measurement category

*ED 4.1.2A* Under the ED, a financial asset would be measured at FVOCI if it:

- meets the SPPI test; and
- is held in a business model in which assets are managed both in order to collect contractual cash flows and for sale.

*ED 5.7.1A* Gains and losses on an FVOCI financial asset would be recognised in OCI, except for the following items that would be recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income using the effective interest method;
- credit impairment losses/reversals; and
- foreign exchange gains and losses.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss as a reclassification adjustment.

*ED 4.1.5, B4.1.29* The existing fair value option in IFRS 9 would be available for financial assets that would otherwise be mandatorily measured at FVOCI. In other words, an entity would be permitted to designate such a financial asset as measured at FVTPL on initial recognition if, and only if, the designation eliminates or significantly reduces an accounting mismatch.

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3 Subsequent references to the FVOCI measurement category are to financial assets that meet these criteria – which, because of the requirement to meet the SPPI test, would be investments in debt instruments. However, the ED would not change the option under IFRS 9 that allows an entity to irrevocably elect on initial recognition to present in OCI changes in the fair value of an investment in an equity instrument that is not held for trading. *(ED 4.1.4)*
The ED requires financial assets to be measured at FVTPL if:

- they are not held within a business model:
  - whose objective is to hold financial assets to collect contractual cash flows; or
  - in which assets are managed both in order to collect contractual cash flows and for sale; or
- they fail the SPPI test.

Under the international Basel framework for banks, many asset measures used to calculate regulatory capital resources and capital requirements are based on the entity’s financial statements. The FVOCI measurement category may affect some regulated banks, because under the Basel III regulatory framework the fair value changes of financial assets that are measured at FVOCI will have a direct effect on regulatory capital.

Other financial institutions, such as insurance companies and securities brokers, may also be subject to national or regulatory requirements applicable to non-banks.

Entities should assess the potential impact on the specific regulatory capital requirements to which they are subject, and should consider managing stakeholder expectations by communicating these impacts before the effective date of the limited amendments.

Furthermore, entities may wish to seek adjustments to the calculation of regulatory capital requirements if they would be impacted by the proposed limited amendments.

5.3 Providing relevant information

The ED’s introduction of an FVOCI measurement category is founded on an objective of providing users of financial statements with information that is useful in assessing the amounts, timing and uncertainty of the entity’s future cash flows.

The ED builds on the fundamental principle under IFRS 9 that consideration of the contractual cash flow characteristics of financial assets and the objective of the business model in which they are managed influences what information is most relevant.

- For financial assets that satisfy the SPPI test, amortised cost information may be the most relevant because the effective interest method can be appropriately applied to these assets.
- The business model in which financial assets are held determines whether an entity’s future cash flows will result primarily from the collection of the contractual cash flows – in which case, an amortised cost measure may be the most relevant.

Therefore, if both of the above conditions are met, then IFRS 9 currently requires the asset to be measured at amortised cost. However, if either of the two conditions is not satisfied, then IFRS 9 currently considers that a fair value measure would be a more relevant reflection of the entity’s future cash flows in both the statement of financial position and profit or loss; it therefore requires the asset to be measured at FVTPL.

The IASB believed that financial information would be made more useful by the proposal to introduce an FVOCI measurement category into IFRS 9, and decided that this category should result in:

- amortised cost information being provided in profit or loss (amortised cost information reflects the decision to hold the assets to collect contractual cash flows unless, and until, they are sold to achieve the objective of the business model); and
• a fair value carrying amount in the statement of financial position (fair value information reflects the cash flows that would be realised if, and when, the asset is sold).

The IASB proposes that this category would be appropriate for financial assets that satisfy the SPPI test, and that are held both in order to collect contractual cash flows and for sale.

The IASB considered this proposal to be appropriate for such a business model because,
• by design, both holding and selling activities are taking place; and
• performance will be affected by both contractual cash flows and the realisation of fair values, making both amortised cost and fair value information relevant to users of the financial statements.

The following table summarises the ED’s approach to classification and measurement of financial assets that meet the SPPI test, including salient features of each business model.

<table>
<thead>
<tr>
<th>Business model</th>
<th>Relevant information</th>
<th>Features</th>
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<tbody>
<tr>
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<td>P &amp; L</td>
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| Held to collect                   | Amortised cost       | - | Amortised cost | • Sales are incidental to the objective of the model *(ED B4.1.5)*
|                                   |        |     |               | • Typically least sales (in frequency and volume) *(ED B4.1.4A)* |
| Both held to collect and for sale | Amortised cost       | Fair value changes | Fair value | • Both collecting contractual cash flows and sales are fundamental to achieving the objective of the business model *(ED B4.1.4A)*
|                                   |        |     |               | • Sales are integral to the objective of the model *(ED B4.1.4A)*
|                                   |        |     |               | • Typically more sales (in frequency and volume) than held-to-collect business model *(ED B4.1.4A)* |
| Other business models, including: | Fair value changes   | - | Fair value | • Residual category
| • Trading                          |        |     |               | • Collection of contractual cash flows is incidental to the objective of the model *(ED B4.1.6)* |
| • Managing assets on a fair value basis |        |     |               |                                           |
| • Maximising cash flows through sale |        |     |               |                                           |
6. Business model assessment

6.1 Identifying the business model

The criteria for the new FVOCI classification include a new business model definition (see 5.2). The ED also includes new application guidance to help entities distinguish between the different types of business models – in particular, how the frequency and significance of actual and expected asset sales affect the assessment.

ED B4.1.2

The ED retains the guidance in IFRS 9 that an entity’s business model does not depend on management’s intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification, but should be determined at a higher level of aggregation – although not necessarily at the reporting entity level (e.g. an entity may hold separate portfolios with different objectives).

ED B4.1.2A

The ED asserts that an entity’s business model for managing financial assets is a matter of fact that can be observed by the way the business is managed and its performance evaluated by the entity’s key management personnel. Furthermore, the entity’s business model for managing the financial assets determines the entity’s likely future cash flows from the financial assets.

ED B4.1.2B

Under the proposals, the determination of the business model for managing financial assets would not be driven by a single factor. Rather, the ED would require an entity to consider all objective evidence that is relevant to its assessment of the business model. Such evidence includes, but is not limited to:

- how the performance of the business is reported to the entity’s key management personnel;
- how managers of the business are compensated – e.g. whether the compensation is based on the fair value of the assets managed; and
- the frequency, timing and volume of sales in prior periods, the reasons for these sales, and expectations about future sales activity.

ED B4.1.3

In determining whether cash flows are expected to be collected from contractual cash flows, an entity would need to consider the level of sales activity, as well as the reason for any sales.

Observations – New judgements to be made on classification and measurement

The introduction of an FVOCI measurement category with a new business model definition and new application guidance on the business model concept may result in new judgements to ensure that financial assets are classified in the appropriate category.

Rather than having to determine only whether an asset is in a ‘held to collect’ business model or not, an entity would have to determine whether it is in a ‘held to collect’ business model, a ‘held both to collect and for sale’ business model, or neither.

Entities may have to reassess how they identify and categorise their business models for acquiring and holding financial assets. This may lead entities to reconsider the way they analyse:

- how the business is managed;
- how performance is evaluated by the entity’s key management personnel; and
- how managers of the business are compensated.

Entities should conduct a comprehensive review of their financial assets to ensure that financial assets would be appropriately classified and measured under the proposals.
6.2 Hold to collect contractual cash flows

Under IFRS 9, although the objective of an entity’s business model may be to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Currently, IFRS 9 states that, “if more than an infrequent number of sales are made out of a portfolio, the entity needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows.” However, it does not provide specific guidance on performing that assessment.

The ED removes that wording and states that sales of assets may be consistent with a held-to-collect business model if:

- The sales take place due to deterioration of the credit quality of the financial asset such that it no longer meets the entity’s documented investment policy. No longer meeting the entity’s investment policy is not the only evidence of credit quality deterioration that indicates that a sale is necessary; however, in the absence of such a policy it may be difficult for an entity to demonstrate that sale is necessary as a result of credit deterioration.
- The sales take place close to the maturity of the financial asset and the proceeds from the sale approximate the collection of the remaining contractual cash flows.
- The sales are infrequent (even if significant), or are insignificant individually and in aggregate (even if frequent).

6.3 Hold to collect contractual cash flows and for sale

Rather than having an objective of holding to collect contractual cash flows, an entity’s business model for managing financial assets may be to manage those assets both to collect contractual cash flows and for sale. In this case, the entity’s key management personnel have made a decision that both collecting contractual cash flows and selling are fundamental to achieving the objective of the business model within which the financial assets are held. The ED observes that, compared to a business model whose objective is to hold financial assets to collect contractual cash flows, this business model will typically involve greater frequency and volume of sales. This is because selling financial assets is integral to achieving the business model's objective rather than only incidental to it.

6.4 Other business models

Under the ED, financial assets would be measured at FVTPL if they are not held within a business model:

- whose objective is to hold financial assets to collect contractual cash flows; or
- in which financial assets are managed both to collect contractual cash flows and for sale.

This would be a residual category, and the ED does not provide a definition of an FVTPL business model. However, it does provide the following examples based on existing guidance in IFRS 9 but supplemented to indicate that, in these cases, the collection of contractual cash flows is only incidental, rather than integral, to the entity’s objective.

- A business model with the objective of maximising cash flows through the sale of the financial assets. In this case, the entity’s objective results in active buying and selling, and the entity is managing the instruments to realise fair value gains.
- A portfolio of financial assets that is managed, and whose performance is evaluated, on a fair value basis.
- A portfolio of financial assets that meets the definition of held-for-trading.
6.5 Application examples

The ED amends and adds to the examples on business model determination that are currently included in IFRS 9. These include two examples regarding the classification of liquidity portfolios held by financial institutions – i.e. assets that are usually readily marketable (or are intended to be) and that may be sold to generate cash to meet liquidity needs.

In the first of these examples, the institution holds assets to meet liquidity needs in a stress scenario – e.g. a run on the bank’s deposits – and does not anticipate otherwise selling the assets. In this case, the entity holds the assets to collect contractual cash flows. However, this example and the second example indicate that there are liquidity portfolios for which a held-to-collect conclusion would not be appropriate – for example:

- assets held to meet everyday liquidity needs that involve recurring and significant sales activity;
- a regulatory requirement to routinely sell significant volumes of assets to demonstrate their liquidity; or
- significant recurring sales activity resulting from active yield management.

In addition to these examples, the application guidance includes an example of an insurer that holds financial assets to fund insurance liabilities. In this example, the insurer both collects contractual cash flows to settle insurance contract liabilities and rebalances the profile of the portfolio through significant selling activity; therefore, its business model is to manage financial assets both to collect contractual cash flows and to sell.

Observations – Information capture

To the extent that the limited amendments cause financial assets to be measured at FVOCI rather than at FVTPL, entities may have to amend their accounting systems to ensure that they are capable of capturing both fair value and amortised cost information – e.g. interest income, impairment – for FVOCI assets.

Observations – Business model assessment still highly judgemental

The ED provides more description of the objective of the business model assessment (in terms of how it relates to the relevance of the resulting information) and more application guidance and examples. However, determining the appropriate business model will still involve a high degree of judgement in many cases, despite being stated to be a matter of fact.

For example, the ED does not include ‘bright lines’ for assessing the impact of sales activity, but instead requires an entity to consider:

- the significance and frequency of sales activity; and
- whether sales activity and the collection of contractual cash flows are each integral or incidental to the business model.
7. Contractual cash flows assessment

One of the criteria for classifying a financial asset into the appropriate measurement category is the SPPI test (see 5.1). A financial asset may only be classified as measured at amortised cost or FVOCI if the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest. Although the ED retains most of the existing guidance in IFRS 9 on applying the SPPI test, it does propose certain clarifications.

ED B4.1.8A

If the contractual cash flows include payments that are unrelated to principal, the time value of money and the credit risk, then the contractual cash flows would not represent solely payments of principal and interest. Accordingly, such financial assets would need to be measured at FVTPL.

7.1 Modified economic relationship

The ED also proposes clarifications for circumstances when a financial asset contains components that are:

- principal; and
- consideration for the time value of money and credit risk;

but the economic relationship between these components is subject to modification.

ED B4.1.9–9A

For example, a financial asset may contain leverage or an interest rate that is resettable, but the frequency of the reset does not match the tenor of the interest rate. These cases are referred to as ‘a modified economic relationship’; and in such cases, the entity would be required to assess the modification to determine whether the contractual cash flows represent solely payments of principal and interest on the principal amount outstanding.

ED B4.1.9B

To do this, an entity would consider cash flows on a comparable or ‘benchmark’ financial asset that does not contain the modification. The appropriate comparable financial asset is a contract of the same credit quality and with the same contractual terms (including, when relevant, the same reset periods), except for the contractual term under evaluation. For example, if the financial asset contains a variable interest rate that is resettable monthly to a three-month interest rate, then the appropriate benchmark would be a financial asset with identical contractual terms and identical credit quality – except that the variable interest rate is resettable monthly to a monthly interest rate. An entity may consider either an actual or a hypothetical financial asset as the basis for the assessment.

ED B4.1.9C

If the modification could result in cash flows that are more than insignificantly different from the benchmark cash flows, then the financial asset does not satisfy the SPPI test.

ED B4.1.9D

In making this assessment, the entity would only consider reasonably possible scenarios rather than every possible scenario. If the entity is unable to conclude that the contractual cash flows could not be more than insignificantly different from the benchmark cash flows, then the financial asset would be measured at FVTPL. If it is clear, with little or no analysis whether the cash flows on the financial asset under the assessment could or could not be more than insignificantly different from the benchmark cash flows, then an entity would not need to perform a detailed assessment.
Observations – More judgement with respect to modified economic relationships

IFRS 9 currently indicates that if the interest payable in each period is disconnected from the term of the instrument, then the SPPI test is failed. It provides as an example (one that is removed in the ED) an instrument under which a borrower can choose to pay one-month LIBOR for three months and whose interest rate is not reset each month.

Compared to IFRS 9 today, the modified economic relationship test would require more judgement, in terms of:

- identifying the characteristics of a benchmark instrument;
- identifying reasonably possible scenarios; and
- determining whether the cash flows in a modified economic relationship could be more than insignificantly different from a benchmark instrument.

Example – Modified economic relationship

A constant-maturity bond has a five-year term and a variable interest rate that is reset semi-annually to a five-year rate. The interest rate curve at the time of initial recognition is such that the difference between a five-year rate and a semi-annual rate is insignificant.

Analysis

The economic relationship between principal and interest is modified because the interest payable is disconnected from both the term of the instrument (except at initial recognition) and the time value of money over that period. The fact that the difference between a five-year rate and a semi-annual rate is insignificant at the time of initial recognition does not in itself enable the entity to conclude that the contractual cash flows are solely payments of principal and interest. The benchmark cash flows are those of an otherwise identical instrument of identical credit quality, but with interest that resets semi-annually to a semi-annual interest rate. The entity should consider whether the relationship between the five-year rate and the semi-annual rate could change over the life of the instrument such that the contractual cash flows over the life could be more than insignificantly different from the benchmark cash flows.

Observations – Review of contractual terms

Entities may have to undertake a comprehensive review of their loan documentation and the terms of securities, to identify contractual terms that modify the economic relationship between principal and interest – i.e. time value of money and credit risk.

As part of the review, they may consider streamlining or simplifying ‘problematic’ contractual terms relating to interest rate changes, to avoid unintended modification to the economic relationship between principal and interest. This may require legal advice.

If an instrument contains a modified economic relationship, then the economic rationale for the rate being set in a particular way is not relevant to the analysis. For example, it does not matter whether the relationship has been included in an exotic structured product to achieve a particular economic result or is required to be set in this way to provide consumer protection.
Observations – Regulated interest rates

The IASB has not proposed any special requirements for loans with interest rates that are subject to regulation – e.g. constant maturity loans in China. Such loans may fail the SPPI test, thereby requiring those financial assets to be measured at FVTPL.

The IASB was asked whether cash flows could be considered to meet the SPPI test if they accorded with local market norms; but it did not accept this suggestion, because those norms might deviate from the economic concept of time value of money.

However, the IASB did note that in environments in which base interest rates are established by a central authority, there may not be other financial instruments priced on a different basis; and that some constituents had concerns about the operationality and appropriateness of the modified economic relationship guidance in these circumstances.

The IASB plans to gather further feedback on this issue.

7.2 Indexation to debtor’s performance

ED B4.1.13 (Instrument A)

Interest that is indexed to the debtor’s performance – e.g. the debtor’s net income – is not consistent with the SPPI criterion. However, the ED proposes clarifying that indexation to the debtor’s performance would not violate the SPPI criterion if it results in an adjustment that only compensates for changes in the credit quality of the financial asset.

Observation – Reflecting practice on credit-related interest adjustments

In our experience, it is quite common for loan agreements to include clauses that vary the interest rate payable in line with changes in a quantitative measure, specific to the debtor, that is intended to reflect changes in the credit risk of the loan. We also believe that the proposed change would more closely reflect emerging practice in applying IFRS 9 and could result in those financial assets not violating the SPPI test.

Example – Indexation to debtor’s performance

A term in a loan requires an increase in contractual interest of 1% per annum if the debtor’s interest coverage ratio or gearing ratio falls below a specified threshold.

This would be consistent with the SPPI criterion if the term represented only consideration – i.e. higher interest – for deterioration in the credit quality of the instrument. Conversely, a term that required interest payments equal to a percentage of the debtor’s earnings could not meet the SPPI test. This is because the lender would be sharing in a portion of the borrower’s results; any additional receipts would not be solely consideration for the time value of money and credit risk.

7.3 Contractually linked instruments

ED B4.1.20, 21A

The ED addresses certain practical considerations with regard to contractually linked instruments. Sometimes, an entity uses multiple contractually linked instruments or tranches to prioritise payments from a pool of underlying investments. Each tranche has a subordination ranking that specifies the order in which any cash flows generated by the issuer are allocated to the tranche. In these cases, the holders
of a tranche have the right to payments of principal and interest on the principal amount outstanding only if the issuer generates sufficient cash flows to satisfy higher-ranking tranches.

**IFRS 9 B4.1.21–26**  
IFRS 9 contains specific requirements for assessing whether a tranche satisfies the SPPI test, which include ‘looking through’ to the pool of underlying instruments and considering the extent to which the tranche creates a concentration of credit risk.

**IFRS 9 B4.1.10**  
However, the first requirement is that the contractual terms of the tranche – without looking through to the pool of underlying investments – do give rise to cash flows that are solely payments of principal and interest. In many cases, the terms of the tranche would allow or require it to be prepaid if underlying investments in the pool are prepaid. This might be considered to violate the SPPI test, because the prepayment feature is contingent.

**ED B4.1.21A**  
However, the ED clarifies that a tranche would satisfy the SPPI test if, had it not been prepayable contingent on a prepayment occurring in the underlying pool, it would otherwise have satisfied the test.

**IFRS 9 B4.1.23–24**  
**ED BC47**  
Another requirement is that the pool of underlying investments may contain – both at initial recognition and subsequently – only:

- financial assets whose cash flows are solely principal and interest; or
- financial instruments that reduce cash flow variability.

**ED B4.1.26**  
In many cases, the financial assets in the pool are collateralised by assets that would not themselves meet the SPPI test – e.g. loans secured against real estate or equity instruments – and, if the debtor defaults, then the issuer may take possession of that collateral. The ED also clarifies that if the underlying pool includes instruments that are collateralised by assets that do not meet the SPPI test, then the collateral would be disregarded in assessing whether the tranche satisfies the SPPI test.
8. Reclassifications

IFRS 9.5.6.1, B4.4.1 Currently, IFRS 9 requires classification of a financial asset to be determined on initial recognition and requires an entity to reclassify financial assets if, and only if, the objective of the entity’s business model for managing those financial assets changes. Such changes are expected to be very infrequent, and need to be determined by the entity’s senior management as a result of external or internal changes. These changes have to be significant to the entity’s operations and demonstrable to external parties. Reclassification is applied prospectively from the start of the first reporting period following the change in business model.

ED B4.4.1 The ED extends these principles to the newly introduced FVOCI measurement category.

ED B5.6.1 Both the amortised cost and FVOCI categories would require the effective interest rate to be determined at initial recognition. Therefore, when reclassifying a financial asset between the amortised cost and FVOCI categories, the recognition of interest income would not change and the entity would continue to use the effective interest rate determined at initial recognition. A financial asset reclassified out of the FVOCI category to the amortised cost category would be measured at amortised cost as if it had always been so classified. This would be effected by transferring the cumulative gain or loss previously recognised in OCI out of equity, with an offsetting entry against the fair value carrying amount at the reclassification date.

ED B5.6.2 However, for financial assets measured at FVTPL, an entity would not be required to separately recognise interest income. When reclassifying a financial asset out of the FVTPL category, the effective interest rate would be determined based on the fair value carrying amount at the reclassification date.

This table summarises the reclassification requirements with regard to the new carrying amount and prospective measurement of a financial asset from the date of reclassification.

<table>
<thead>
<tr>
<th>Reclassification to</th>
<th>FVTPL</th>
<th>FVOCI</th>
<th>Amortised cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reclassification from</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FVTPL</td>
<td></td>
<td>Continue to measure at fair value.</td>
<td>Fair value on reclassification date = new carrying value. (No change to existing guidance in IFRS 9).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Subsequent changes in fair value recognised in OCI.</td>
<td></td>
</tr>
<tr>
<td>FVOCI</td>
<td>Continue to measure at fair value.</td>
<td>Accumulated OCI derecognised, with offsetting entry against fair value carrying amount.</td>
<td>Adjusted carrying amount = amortised cost. The effective interest rate determined at initial recognition is not adjusted as a result of the reclassification.</td>
</tr>
<tr>
<td></td>
<td>Recycle accumulated OCI balance to profit or loss on reclassification.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Reclassification to

<table>
<thead>
<tr>
<th>Reclassification from</th>
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<th>FVOCI</th>
<th>Amortised cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortised cost</td>
<td>Fair value on reclassification date = new carrying value, with difference between amortised cost and fair value recognised in profit or loss. (No change to existing guidance in IFRS 9).</td>
<td>Remeasure at fair value, with any difference recognised in OCI. The effective interest rate determined at initial recognition is not adjusted as a result of the reclassification.</td>
<td></td>
</tr>
</tbody>
</table>
9. Alternative views on FVOCI

ED Alternative Views

Two IASB members objected to the proposal to introduce a new FVOCI measurement category, and voted against the publication of the ED. They were of the following views.

● The new FVOCI category would lead to unnecessary additional complexity. They believed that a key objective of IFRS 9 was to reduce the number of measurement categories, and that the additional FVOCI category represents a confusing mix of amortised cost and fair value measurement.

● The notion of ‘managed both in order to collect contractual cash flows and to sell’ is unclear, and does not represent a distinct business model. This would lead to diversity in practice. For example, they considered that there is no clear way to distinguish between managing assets with the objective of maximising total return (which is cited in the ED as a ‘hold to collect and for sale’ business model) and managing assets on a fair value basis.

● An FVOCI measurement category is not needed to ensure faithful representation of insurance contracts. Rather than including some changes in the carrying amounts of financial assets and insurance contracts in OCI, greater simplicity and transparency would result from:
  – presenting all changes in insurance contract liabilities in profit or loss;
  – the frequent use of FVTPL for financial assets held by insurers; and
  – appropriate disaggregation of gains and losses to allow clear identification of an insurer’s sources of earnings.

ED BC29

Observations – Interaction with accounting for insurance contracts

The interaction between the insurance contracts project and the proposed amendments to IFRS 9 is complex. In ED/2010/8 Insurance Contracts, the IASB proposed that an insurer would generally measure insurance contracts at an amount that principally represents the present value of the expected future cash flows under the contract with all changes in the measurement of the contract recognised in profit or loss. Generally, the discount rate used in measuring the present value would be a current rate based on market conditions at the end of the reporting period.

Many respondents to the insurance ED were concerned at the volatility in reported earnings that would result. In its redeliberations, the IASB has tentatively decided that changes in the carrying amount of an insurance contract liability that result from changes in the discount rate used to measure the present value would generally be included in OCI rather than profit or loss. Profit or loss would include interest expense on the insurance liability calculated at a locked-in discount rate determined at inception of the contract.

Insurers frequently hold investments in debt instruments to fund their insurance contract liabilities. Most IASB members believe that the new FVOCI category for financial assets may improve consistency between the accounting for insurance contracts under the insurance project and the accounting for financial instruments. That is, if an insurer holds financial assets measured at FVOCI, then changes in both:

● the fair value of the financial assets that the insurer holds; and

● the carrying amount of the insurer’s insurance contract liabilities arising from the effect of changes in the discount rate

would be presented in OCI.
Conversely, if IFRS 9 did not include the new FVOCI measurement category, then an accounting mismatch would arise between:

- the effects of changes in discount rates on the measurement of insurance contracts (which would be presented in OCI); and
- the effects of changes in interest rates on the measurement of fixed-rate financial assets (which would be recognised in profit or loss, or – in the case of assets measured at amortised cost – not recognised at all).

Proponents of the IASB’s declared approach believe that it will provide a useful segregation of:

- underwriting results on insurance contracts that would be reflected in profit or loss; and
- volatility arising from changes in interest rates.

However, the debate continues as to whether the IASB has found the best overall package to try to minimise accounting mismatches and most transparently present economic mismatches. The dissenting IASB members argue that changes in the values of insurance contracts and financial assets held by insurers may reflect actual mismatches between the expected duration of insurance contracts and financial assets. They also state that accounting mismatches would arise if an insurer sold financial assets classified as FVOCI, because the accumulated gain or loss on the financial asset would be presented in profit or loss at that time, whereas the cumulative effect of discount rate changes on a related insurance contract liability may not. And they point out that accounting mismatches would still arise under the proposals if the assets held to fund insurance contract liabilities are not categorised as FVOCI – e.g. if the assets do not satisfy the SPPI test or business model test.

The latter point may be of particular concern to insurers that have concluded that financial assets are managed on a fair value basis, thereby requiring FVTPL classification. There may also be more subtle accounting mismatches – for example, under the insurance contract proposals the amount included in OCI would reflect only changes in the discount rate; however, it would not reflect changes in the amount and timing of cash flows that may be affected by changes in assumptions about market interest rates.

The IASB has also tentatively decided on specific ‘mirroring’ requirements for participating contracts. These are intended to align the measurement of such contracts with that of the underlying assets, and to unlock the discount rate for other contracts that are affected by asset returns.

The complexity of these issues – and the fact that a new exposure draft on insurance contracts is not expected until after the comment period on the IFRS 9 limited amendments ED closes – poses particular challenges for insurers and their stakeholders in evaluating the proposals in the ED and formulating their response. It will be particularly important for them to consider how both the ED and the tentative decisions in the insurance contracts project affect them in combination and for their comment letters to explain how their views are based on or might vary with decisions that the IASB has made or may make in the insurance contracts project.

See also ‘Observations – Project completion and effective date’ in Section 13.
10. Presentation and disclosures

The ED proposes consequential amendments to IAS 1 Presentation of Financial Statements and IFRS 7 Financial Instruments: Disclosures, principally to cater for the new FVOCI measurement category.

10.1 Categories of financial assets

ED Appendix C – IFRS 7.8

IFRS 7 would be amended to require separate disclosure of:

- the carrying amounts of financial assets included in the new FVOCI measurement category, either in the statement of financial position or in the notes; and
- net gains or losses on financial assets included in the new FVOCI measurement category that are:
  - recognised in OCI during the period; and
  - reclassified from accumulated OCI to profit or loss for the period, either in the statement of comprehensive income or in the notes.

ED Appendix C – IAS 1.82(cb)

The ED also proposes amending IAS 1 to require a separate line item to be presented in profit or loss for gains and losses reclassified to profit or loss on any reclassification of a financial asset from the FVOCI measurement category to the FVTPL measurement category.

IAS 1.106, 106A

Gains and losses on financial assets measured at FVOCI and included in OCI would represent a distinct component of OCI, thereby requiring a reconciliation of the opening and closing balances included in equity.

10.2 Allowance for credit losses

ED Appendix C – IFRS 7.16A

Financial assets measured at FVOCI would be subject to the impairment recognition and measurement requirements that apply to financial assets measured at amortised cost; however, their carrying amount would always be fair value, and accordingly would not be directly reduced by an accumulated impairment amount. An entity would be prohibited from presenting the accumulated impairment amount for these assets in the statement of financial position. However, it would be required to disclose the accumulated impairment amount in the notes to the financial statements.

10.3 Disclosure of significant judgements

ED Appendix C – IAS 1.123

As a result of the increased judgement required by the modified economic relationship assessment, the ED would amend IAS 1 to include the judgements that management makes in determining whether the contractual cash flows of a financial asset are solely payments of principal and interest; this would be included as a possible example of a significant judgement in applying an entity’s accounting policies that requires disclosure.
11. Effective date and transition

The effective date for the version of IFRS 9 that includes the limited amendments proposed in the ED would remain unchanged as annual reporting periods beginning on or after 1 January 2015.

The ED would continue to allow earlier application of IFRS 9. Currently, entities may choose to early apply either IFRS 9 (2009) or IFRS 9 (2010). However, under the ED, six months after IFRS 9 is finalised – i.e. after the completion of the classification and measurement, impairment and general hedge accounting chapters – entities that newly apply IFRS 9 before the mandatory effective date would be required to apply the final version of IFRS 9 in its entirety. The IASB believes that the decrease in comparability and increase in complexity that results from allowing a phased early adoption would no longer be justified once a complete final version of IFRS 9 has been issued and is available for early application.

Entities that have already early applied IFRS 9 (2009) or IFRS 9 (2010) – or do so before the six-month deadline – would be permitted to continue applying that version of IFRS 9 until the mandatory effective date. The same would apply to entities that early apply the version of IFRS 9 that includes the new requirements on hedge accounting (which are expected to be issued soon) before the six-month deadline.

11.1 Early application of own credit requirements

Notwithstanding the above, under the ED, an entity would be allowed to early apply only the own credit requirements for financial liabilities measured under the fair value option without the need to early apply IFRS 9 in its entirety. By contrast, an entity may currently early apply the own credit requirements only if it early applies IFRS 9 (2010) in its entirety.

11.2 Changes to transition requirements

The ED largely preserves the existing transition requirements in IFRS 9. These generally require retrospective application, but with an exemption from the requirement to restate information for periods prior to the date of initial application. Also, the assessment of the business model in which financial assets are held would continue to be made on the basis of facts and circumstances at the date of initial application, rather than on initial recognition of the assets.

If it is impracticable for an entity to retrospectively apply the new guidance on modified economic relationships to a financial asset – e.g. because it might involve the use of hindsight – then the entity would retrospectively assess the contractual cash flow characteristics ignoring this new guidance and using the existing guidance in IFRS 9 (2010). In this case, the entity would have to disclose the carrying amounts of the relevant assets until they are derecognised.

Similar to the existing guidance in IFRS 9 (2010), if an entity is transitioning from an earlier version of IFRS 9 to the amended version, then it would not be permitted to apply all the transition requirements a second time. However, the option to designate financial assets as measured at FVTPL would be partially reopened such that an entity would be:

• required to revoke such a designation if the accounting mismatch criterion is no longer satisfied as a result of applying the amendments; and
• permitted to make a new designation if the accounting mismatch criterion was not previously satisfied but is satisfied as a result of applying the amendments.
Other changes to transition requirements

Under IFRS 9 (2010), an entity is required to make certain disclosures for financial assets that are reclassified so that they are measured at amortised cost on transition. Under the proposals, the entity would be required to make the same disclosures for financial assets that are reclassified so that they are measured at FVOCI on transition. These disclosures include:

- the fair value at the end of the reporting period;
- the fair value gain or loss that would have been recognised in profit or loss or OCI absent the reclassification;
- the effective interest rate; and
- interest income or expense.

The ED proposes an exemption from the requirement in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to disclose the line item amounts that would have been reported in accordance with the classification and measurement requirements of IFRS 9 for prior periods and IAS 39 Financial Instruments: Recognition and Measurement for the current period.

Observations – Relief from disclosure of effect of adoption

Although the ED provides relief from disclosure of the effect on line items from adoption of IFRS 9, it does not explicitly address the requirement of IAS 8.28(f)(ii), which requires the effect on basic earnings per share and diluted earnings per share from adopting a new standard to be disclosed for the current period and each prior period presented.

Computation of these effects would require a similar level of effort as would have been needed if no relief had been provided.
12. FASB proposals and convergence

The IASB’s project to improve and simplify the accounting for financial instruments has been a joint project with the FASB. One of the project’s aims has been to achieve increased comparability between IFRS and US GAAP information.

In 2010, the FASB issued an exposure draft on financial instruments accounting. The classification and measurement requirements in the FASB’s exposure draft were quite different from IFRS 9. Whereas IFRS 9 is a mixed-attribute model under which some financial instruments are measured at amortised cost and some at fair value, the FASB ED proposed that the default measurement approach should be fair value (including an FVOCI category for financial assets) with some exceptions, including allowing some liabilities to be measured at amortised cost. Based on the feedback it received on its 2010 ED, the FASB subsequently decided to move more towards a mixed-attribute model, and to allow some financial assets to be measured at amortised cost.

Part of the IASB’s rationale for reconsidering some aspects of IFRS 9’s classification and measurement requirements was to try to reduce differences between IFRS 9 and the FASB’s approach. During 2012, the IASB and the FASB worked together across a number of joint meetings to redeliberate their respective models. This led to agreement between the Boards on some of the fundamental principles that are reflected in the ED, such as the following.

- Classification and measurement of financial assets would be based on their contractual cash flow characteristics and the business model in which they are managed.
- Financial assets would be measured at amortised cost if they meet the SPPI test and are held to collect contractual cash flows.
- Financial assets would be measured at FVOCI if they meet the SPPI test and are held both to collect contractual cash flows and for sale. Amortised cost information for these assets would be reflected in profit or loss.
- Reclassifications would be permitted and required only following a change in the business model – although the FASB decided that reclassification would occur on the last day of the reporting period in which the change occurs, whereas IFRS 9 specifies the first day of the next reporting period.

The FASB also decided to move closer to IFRS 9 by deciding that, for financial liabilities designated under the fair value option, changes in fair value attributable to own credit risk should be recognised in OCI. However, unlike IFRS 9 – which does not permit reclassification of these gains and losses to profit or loss – the FASB decided that they should be reclassified to earnings on settlement.

The FASB is expected to issue its revised proposals for classification and measurement of financial instruments for public comment in the first quarter of 2013. These proposals are expected to include guidance on applying the SPPI test and the business model concept.

Observations – Comparability in practice

The joint deliberations in 2012 resulted in agreement between the Boards on the key principles of including an FVOCI category, the SPPI test and the business model concept. However, the practical application of those principles will be influenced significantly by the application guidance that accompanies them.
The ED includes proposed guidance on applying these principles that the IASB has developed following the joint discussions. It is unclear whether the FASB plans to include identical or different application guidance in its ED. It would be disappointing and potentially confusing for preparers and users of financial statements if there was apparent convergence at the level of high principle but significant differences in practice due to divergent application guidance.

Because the FASB’s exposure draft is expected to be released in Q1 2013, it may leave respondents with limited time to comment on or fully consider any differences in application guidance between the Boards.

There also remain a number of other differences on classification and measurement between IFRS 9 and the FASB’s model that will continue to adversely affect comparability – e.g. classification and measurement of investments in equity instruments, criteria for bifurcating embedded derivatives from financial liabilities, day one measurement of financial instruments, and eligibility criteria for the fair value option.

Also, comparability will be reduced as a result of differences in other and interrelated aspects of the Boards’ financial instruments projects. For example, there are significant differences between the IASB’s near-final review draft on hedge accounting and corresponding US GAAP requirements, and the Boards’ proposals for the impairment of financial assets are also currently on divergent paths.
13. Next steps

The comment period on the ED ends on 28 March 2013, and the IASB has scheduled redeliberations based on the feedback received for the second quarter of 2013.

The ED is an integral part of the overall IFRS 9 project. The IASB issued a review draft of a general hedge accounting standard on its website in September 2012, and aims to issue a finalised general hedge accounting standard in Q1 2013. It is also planning to issue a new exposure draft on impairment – which will be the third exposure on the subject – in Q1 2013.

A discussion paper on macro hedging, which has been detached from the general hedge accounting requirements, is expected during the first half of 2013.

Observations – Project completion and effective date

It is possible that the IASB will be able to issue a final version of IFRS 9 – including classification and measurement, impairment and general hedge accounting, but excluding macro hedging – in late 2013. A critical element will be making sustained progress on the impairment phase. However, the project has been plagued by a number of delays. Hans Hoogervorst, the Chairman of the IASB, has said that these have shaken constituents’ faith in its ability to meet deadlines. Progress may also depend on the pace of the FASB’s work programme – in terms of the two Boards jointly redeliberating issues with an aim of increasing comparability, and the expectation that each Board will consider feedback from its own constituents on the other’s proposals where they differ.

Even if IFRS 9 is finalised in late 2013, this would leave just over 12 months until the current mandatory effective date of 1 January 2015. It is likely that many entities, and in particular financial institutions, will be concerned that this would leave a relatively short run up to initial application of the standard, considering the possibly wide-ranging and extensive changes to accounting processes and asset allocation programmes that may be necessary. It would also leave a compressed timetable for local endorsement processes that may take more time than usual, given the breadth of a final standard and the potentially controversial nature of, and public interest in, the new requirements, which have been developed in response to the financial crisis and which will be fundamental to financial reporting by banks.

Given the interaction between IFRS 9 and the insurance contracts project, many insurers are also likely to be concerned about the current effective date and transition requirements. Some would hope to be able to adopt both IFRS 9 and the new insurance contracts standard at the same time, to avoid successive major changes and possible accounting mismatches arising from interaction between IFRS 9’s requirements and their current insurance accounting policies. However, the IASB staff currently estimate that the issue date of a final insurance standard will be mid to late 2014. On the assumption that the effective date of the final insurance standard is expected to be approximately three years after the standard is issued, this would result in an expected effective date for that standard of annual reporting periods beginning on or after 1 January 2018.

When an insurer adopts IFRS 9, it will have to classify its financial assets at that time in accordance with IFRS 9. The IASB has tentatively decided that when an insurer adopts the new insurance standard, it would be:

- permitted to designate eligible financial assets under the fair value option where new accounting mismatches are created by applying the new insurance standard;
- required to revoke previous designations under the fair value option where an accounting mismatch no longer exists as a result of applying the new insurance standard; and
- permitted to use OCI for the presentation of changes in the fair value of some or all equity instruments that are not held for trading, or revoke a previous election to that effect.
Apart from these tentative transition reliefs, an insurer would only be able to reclassify financial assets after adopting IFRS 9 in accordance with the reclassification guidance in IFRS 9 – that is, in the limited circumstances related to a change in business model described in Section 8 above. For example, after adopting IFRS 9, an insurer would not be able to subsequently reclassify financial assets from amortised cost to FVOCI absent a significant change in business model. Accordingly, the way an insurer classifies financial assets on its adoption of IFRS 9 could have a continuing impact following its subsequent adoption of the new insurance standard and on the extent to which the two would in combination create or reduce accounting mismatches (see ‘Observations – Interaction with accounting for insurance contracts’ in Section 9).
About this publication

This publication has been produced by the KPMG International Standards Group (part of KPMG IFRG Limited).

Content

Our New on the Horizon publications are prepared on the release of a new proposed IFRS or proposed amendment(s) to the requirements of existing IFRSs. They include a discussion of the key elements of the new proposals and highlight areas that may result in a change of practice.

This edition of New on the Horizon considers the requirements of the IASB’s proposed limited amendments to IFRS 9 Financial Instruments on classification and measurement (the exposure draft).

The text of this publication is referenced to the exposure draft and to selected other current IFRSs in issue at 30 November 2012. References in the left-hand margin identify the relevant paragraphs.

Further analysis and interpretation will be needed for an entity to consider the potential impact of the exposure draft in light of the entity’s own facts, circumstances and individual transactions. The information contained in this publication is based on initial observations developed by the KPMG International Standards Group and these observations may change.

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All of these publications are relevant for those involved in external IFRS reporting. The In the Headlines series and Insights into IFRS: An overview provide a high level briefing for audit committees and boards.

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