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Draft amendments to other IFRSs and guidance
Exposure Draft ED/2009/7

Financial Instruments: Classification and Measurement

Comments to be received by 14 September 2009



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Exposure Draft

**FINANCIAL INSTRUMENTS:
CLASSIFICATION AND
MEASUREMENT**

**Draft amendments to other IFRSs
and guidance**

Comments to be received by 14 September 2009

ED/2009/7

This booklet contains Appendix C of the proposed International Financial Reporting Standard (IFRS) set out in the exposure draft *Financial Instruments: Classification and Measurement* (see separate booklet). It also contains draft amendments to the guidance on other IFRSs. Comments on the draft IFRS and its accompanying documents should be submitted in writing so as to be received by **14 September 2009**. Respondents are asked to send their comments electronically to the IASB website (www.iasb.org), using the 'Open to Comment' page.

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence.

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FINANCIAL INSTRUMENTS: CLASSIFICATION AND MEASUREMENT**

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Appendix C Amendments to other IFRSs

The amendments in this [draft] appendix shall be applied for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies this [draft] IFRS for an earlier period, it shall apply these amendments for that earlier period. Amended paragraphs are shown with new text underlined and deleted text struck through.

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

C1 Paragraph 29 is amended and paragraph 39A is added as follows:

Presentation and disclosure

Explanation of transition to IFRSs

Designation of financial assets or financial liabilities

29 An entity is permitted to designate a previously recognised financial asset or financial liability as a financial asset or financial liability at fair value through profit or loss ~~or a financial asset as available for sale~~ in accordance with paragraph ~~D19~~ B9. The entity shall disclose the fair value of financial assets or financial liabilities designated into ~~each~~ this category at the date of designation and their classification and carrying amount in the previous financial statements.

Effective date

39A [Draft] IFRS X *Financial Instruments: Classification and Measurement*, issued in [date to be inserted after exposure] amended paragraphs 29 and B1, added paragraphs B8 and B9 and deleted paragraph D19. An entity shall apply those amendments for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendments for that earlier period.

- C2 In Appendix B, paragraph B1 is amended, and a heading and paragraphs B8 and B9 are added.

Appendix B

Exceptions to the retrospective application of other IFRSs

- B1 An entity shall apply the following exceptions:
- (a) derecognition of financial assets and financial liabilities (paragraphs B2 and B3);
 - (b) hedge accounting (paragraphs B4–B6), ~~and~~ ;
 - (c) non-controlling interests (paragraph B7); ~~and~~
 - (d) classification and measurement of financial assets and financial liabilities (paragraphs B8 and B9).

Classification and measurement of financial assets and financial liabilities

- B8 An entity shall assess whether a financial asset or financial liability meets the condition in paragraph 4(b) of [draft] IFRS X on the basis of the facts and circumstances that exist at the date of transition to IFRSs. The resulting classification shall be applied retrospectively.
- B9 An entity may designate a financial asset or financial liability as at fair value through profit or loss in accordance with paragraph 9 of [draft] IFRS X on the basis of the facts and circumstances that exist at the date of transition to IFRSs. That classification shall be applied retrospectively.
- C3 In Appendix D (Exemptions from other IFRSs), the heading above paragraph D19 and paragraph D19 are deleted.

IFRS 3 *Business Combinations*

- C4 Paragraphs 16, 42, 53 and 56 are amended and paragraph 64A is added as follows:

The acquisition method

Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

Recognition principle

Classifying or designating identifiable assets acquired and liabilities assumed in a business combination

- 16 In some situations, IFRSs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date include but are not limited to:
- (a) classification of particular financial assets and liabilities as a financial asset or liability at fair value through profit or loss, or ~~at amortised cost as a financial asset available for sale or held to maturity~~, in accordance with ~~[draft] IFRS X *Financial Instruments: Classification and Measurement* IAS 39 *Financial Instruments: Recognition and Measurement*~~;
 - (b) designation of a derivative instrument as a hedging instrument in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*; and
 - (c) assessment of whether an embedded derivative should be separated from the non-financial host contract in accordance with IAS 39 (which is a matter of 'classification' as this IFRS uses that term).

Additional guidance for applying the acquisition method to particular types of business combinations

A business combination achieved in stages

- 42 In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income ~~(for example, because the investment was classified as available for sale)~~. If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

Determining what is part of the business combination transaction

Acquisition-related costs

- 53 Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with IAS 32 and [draft] IFRS X IAS 39.

Subsequent measurement and accounting

Contingent liabilities

- 56 After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognised in a business combination at the higher of:
- (a) the amount that would be recognised in accordance with IAS 37; and
 - (b) the amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.

This requirement does not apply to contracts accounted for in accordance with [draft] IFRS X and IAS 39.

Effective date and transition

Effective date

- 64A [Draft] IFRS X issued in [date to be inserted after exposure], amended paragraphs 16, 42, 53 and 56. An entity shall apply those amendments for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendments for that earlier period.

IFRS 4 *Insurance Contracts*

C5 Paragraphs 3, 4(d), 12(b) and 35 are amended and paragraph 41C is added as follows:

Scope

3 This IFRS does not address other aspects of accounting by insurers, such as accounting for financial assets held by insurers and financial liabilities issued by insurers (see IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement*, ~~and IFRS 7 and [draft] IFRS X *Financial Instruments: Classification and Measurement*~~), except in the transitional provisions in paragraph 45.

4 An entity shall not apply this IFRS to:

...

(d) financial guarantee contracts unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, in which case the issuer may elect to apply either IAS 39, IAS 32, ~~and IFRS 7 and [draft] IFRS X~~ or this ~~Standard~~ IFRS to such financial guarantee contracts. The issuer may make that election contract by contract, but the election for each contract is irrevocable.

Unbundling of deposit components

12 To unbundle a contract, an insurer shall:

...

(b) apply ~~[draft] IFRS X and~~ IAS 39 to the deposit component.

Recognition and measurement

Discretionary participation features

Discretionary participation features in financial instruments

35 The requirements in paragraph 34 also apply to a financial instrument that contains a discretionary participation feature. In addition:

- (a) if the issuer classifies the entire discretionary participation feature as a liability, it shall apply the liability adequacy test in paragraphs 15–19 to the whole contract (ie both the guaranteed element and the discretionary participation feature). The issuer need not determine the amount that would result from applying [draft] IFRS X and IAS 39 to the guaranteed element.
- (b) if the issuer classifies part or all of that feature as a separate component of equity, the liability recognised for the whole contract shall not be less than the amount that would result from applying [draft] IFRS X and IAS 39 to the guaranteed element. That amount shall include the intrinsic value of an option to surrender the contract, but need not include its time value if paragraph 9 exempts that option from measurement at fair value. The issuer need not disclose the amount that would result from applying [draft] IFRS X and IAS 39 to the guaranteed element, nor need it present that amount separately. Furthermore, the issuer need not determine that amount if the total liability recognised is clearly higher.

Effective date and transition

- 41C [Draft] IFRS X issued in [date to be inserted after exposure], amended paragraphs 3, 4(d), 12(b), 35, B18(g) and the definition of ‘deposit component’ in Appendix A. An entity shall apply those amendments for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendments for that earlier period.
- C6 In Appendix A (Defined terms), the definition of ‘deposit component’ is amended as follows:
- deposit component** A contractual component that is not accounted for as a derivative under [draft] IFRS X and IAS 39 and would be within the scope of IAS 39 if it were a separate instrument.

C7 In Appendix B (Definition of an insurance contract), paragraph B18(g) is amended as follows:

Examples of insurance contracts

B18 The following are examples of contracts that are insurance contracts, if the transfer of insurance risk is significant:

...

- (g) credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. These contracts could have various legal forms, such as that of a guarantee, some types of letter of credit, a credit derivative default contract or an insurance contract. However, although these contracts meet the definition of an insurance contract, they also meet the definition of a financial guarantee contract in IAS 39 and are within the scope of IAS 32 [footnote omitted] and IAS 39, not this IFRS (see paragraph 4(d)). Nevertheless, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either [draft] IFRS X, IAS 39 and IAS 32 [footnote omitted] or this ~~Standard~~ IFRS to such financial guarantee contracts.

IFRS 7 *Financial Instruments: Disclosures*

- C8 A heading and paragraphs 11A, 11B, 20A, 44H and 44I are added, paragraphs 12 and 12A are deleted and paragraphs 2, 3(d), 8, 9, 10, 20, 29 and 30 are amended as follows:

Objective

- 2 The principles in this IFRS complement the principles for recognising, measuring and presenting financial assets and financial liabilities in IAS 32 *Financial Instruments: Presentation*, ~~and IAS 39 *Financial Instruments: Recognition and Measurement*~~ and [draft] IFRS X *Financial Instruments: Classification and Measurement*.

Scope

- 3 This IFRS shall be applied by all entities to all types of financial instruments, except:

...

- (d) insurance contracts as defined in IFRS 4 *Insurance Contracts*. However, this IFRS applies to derivatives that are embedded in insurance contracts if IAS 39 requires the entity to account for them separately. Moreover, an issuer shall apply this IFRS to *financial guarantee contracts* if the issuer applies IAS 39 and [draft] IFRS X in recognising and measuring the contracts, but shall apply IFRS 4 if the issuer elects, in accordance with paragraph 4(d) of IFRS 4, to apply IFRS 4 in recognising and measuring them.

...

Significance of financial instruments for financial position and performance

Statement of financial position

Categories of financial assets and financial liabilities

- 8 The carrying amounts of each of the following categories, as ~~specified defined in [draft] IFRS X IAS 39~~, shall be disclosed either in the statement of financial position or in the notes:

- (a) financial assets at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those mandatorily classified as at fair value held for trading in accordance with [draft] IFRS X IAS 39;
- ~~(b)-(d) [deleted]~~
- ~~(b) held to maturity investments;~~
- ~~(c) loans and receivables;~~
- ~~(d) available for sale financial assets;~~
- (e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those mandatorily classified as at fair value held for trading in accordance with [draft] IFRS X IAS 39; and
- ~~(ea) financial assets measured at fair value through other comprehensive income;~~
- ~~(eb) financial assets measured at amortised cost; and~~
- (f) financial liabilities measured at amortised cost.

Financial assets or financial liabilities at fair value through profit or loss

- 9 If the entity has designated as at fair value through profit or loss a financial asset (or group of financial assets) that would otherwise be measured at amortised cost a loan or receivable (or group of loans or receivables) as at fair value through profit or loss, it shall disclose:
- (a) the maximum exposure to *credit risk* (see paragraph 36(a)) of the ~~loan or receivable~~ financial asset (or group of ~~loan or receivables~~ financial assets) at the end of the reporting period.
 - (b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.

- (c) the amount of change, during the period and cumulatively, in the fair value of the ~~loan or receivable~~ financial asset (or group of ~~loan or receivables~~ financial assets) that is attributable to changes in the credit risk of the financial asset determined either:
- (i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to *market risk*; or
 - (ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset.

Changes in market conditions that give rise to market risk include changes in an observed (benchmark) interest rate, commodity price, foreign exchange rate or index of prices or rates.

- (d) the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the ~~loan or receivable~~ financial asset was designated.

- 10 If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 9 of ~~[draft] IFRS X IAS 39~~, it shall disclose:

...

Financial assets at fair value through other comprehensive income

- 11A If an entity designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by paragraph 21 of [draft] IFRS X, it shall disclose:
- (a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income.
 - (b) the reasons for using this presentation alternative.
 - (c) the fair value of each such investment at the end of the reporting period.

- (d) any transfers of the cumulative gain or loss within equity during the period other than on disposal, including the reason for such transfers.
- 11B If an entity sold investments in equity instruments measured at fair value through other comprehensive income during the reporting period, it shall disclose:
- (a) the reasons for disposing of the investments.
 - (b) the cumulative gain or loss transferred within equity on disposal, if any.

Statement of comprehensive income

Items of income, expense, gains or losses

- 20 An entity shall disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:
- (a) net gains or net losses on:
 - (i) financial assets or financial liabilities measured at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are mandatorily classified as at fair value held for trading in accordance with [draft] IFRS X IAS 39;
 - ~~(ii)-(iv) [deleted]~~
 - ~~(ii) available for sale — financial — assets, — showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified from equity to profit or loss for the period;~~
 - ~~(iii) held-to-maturity investments;~~
 - ~~(iv) loans and receivables; and~~
 - (v) financial assets or financial liabilities measured at amortised cost;
 - (vi) financial assets measured at fair value through other comprehensive income;

- (b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are measured at amortised cost ~~not at fair value through profit or loss~~;
 - (c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:
 - (i) financial assets or financial liabilities measured at amortised cost ~~that are not at fair value through profit or loss~~; and
 - (ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions;
 - (d) interest income on impaired financial assets accrued in accordance with paragraph AG93 of IAS 39; and
 - (e) the amount of any impairment loss for each class of financial asset.
- 20A An entity shall disclose a reconciliation of the gain or loss recognised in the statement of comprehensive income arising from the derecognition of financial assets and financial liabilities measured at amortised cost.

Other disclosures

Fair value

- 29 Disclosures of fair value are not required:
- (a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short term trade receivables and payables.
 - (b) ~~for an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost in accordance with IAS 39 because its fair value cannot be measured reliably; or~~
 - (c) ~~for a contract containing a discretionary participation feature (as described in IFRS 4) if the fair value of that feature cannot be measured reliably.~~
- 30 ~~In the cases described in paragraphs 29(b) and (c), Disclosures of fair value are not required for a contract containing a discretionary participation feature (as described in IFRS 4) if the fair value of that feature cannot be measured reliably. However,~~ an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those ~~financial assets and financial liabilities contracts~~ and their fair value, including:
- (a) ...

Effective date and transition

- 44H [Draft] IFRS X issued in [date to be inserted after exposure], amended paragraphs 2, 3(d), 8, 9, 10, 20, 29 and 30, added paragraphs 11A, 11B and 20A and deleted paragraphs 12 and 12A. It also amended the last paragraph of Appendix A (Defined terms) and paragraphs B1, B5, B10, B22 and B27 in Appendix B (Application guidance), and deleted Appendix D (Amendments to IFRS 7 if the Amendments to IAS 39 Financial Instruments: Recognition and Measurement—*The Fair Value Option* have not been applied). An entity shall apply those amendments for annual periods beginning on or after [date to be inserted after exposure]. Earlier application is permitted. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendments for that earlier period and disclose for each class of financial assets and financial liabilities at the date of initial application:
- (a) the original measurement category and carrying amount determined in accordance with IAS 39;
 - (b) the new measurement category and carrying amount determined in accordance with [draft] IFRS X;
 - (c) the amount of any financial assets or financial liabilities designated as at fair value through profit or loss that have been reclassified in accordance with paragraph 9 of [draft] IFRS X, and their original measurement basis and presentation method;
 - (d) the amount of any financial assets or financial liabilities that were previously designated as at fair value through profit or loss that are no longer so designated, distinguishing between those that [draft] IFRS X requires to reclassify and those that an entity elects to reclassify.

- 44I An entity shall present the quantitative disclosures required by paragraph 44H in tabular format unless another format is more appropriate. In addition, an entity shall disclose qualitative information to enable users to understand:
- (a) the reasons for how it applied the classification requirements in [draft] IFRS X for those financial assets or financial liabilities whose classification has changed as a result of applying [draft] IFRS X.
 - (b) the reasons for any designation or revocation of financial assets or financial liabilities at fair value through profit or loss

- C9 In Appendix A (Defined terms), the last paragraph is amended as follows:
 The following terms are defined in paragraph 11 of IAS 32, ~~or~~ paragraph 9 of IAS 39 or Appendix A of [draft] IFRS X and are used in the IFRS with the meaning specified in IAS 32, ~~and~~ IAS 39 and [draft] IFRS X.

- ~~•~~ ~~amortised cost of a financial asset or financial liability~~
- amortised cost
- ~~•~~ ~~available for sale financial assets~~
- derecognition
- derivative
- effective interest method
- equity instrument
- fair value
- financial asset
- ~~•~~ ~~financial asset or financial liability at fair value through profit or loss~~
- ~~•~~ ~~financial asset or financial liability held for trading~~
- financial guarantee contract
- financial instrument
- financial liability
- forecast transaction
- hedging instrument

- held for trading
- ~~held to maturity investments~~
- ~~loans and receivables~~
- regular way purchase or sale

C10 In Appendix B (Application guidance), paragraphs B1, B5, B10, B22 and B27 are amended as follows:

Classes of financial instruments and level of disclosure (paragraph 6)

B1 Paragraph 6 requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in paragraph 6 are determined by the entity and are, thus, distinct from the categories of financial instruments specified in ~~IAS 39~~ [draft] IFRS X (which determine how financial instruments are measured and where changes in fair value are recognised).

Significance of financial instruments for financial position and performance

Other disclosure – accounting policies (paragraph 21)

B5 Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

- (a) for financial assets or financial liabilities designated as at fair value through profit or loss:
 - (i) the nature of the financial assets or financial liabilities the entity has designated as at fair value through profit or loss;

- (ii) ~~[deleted] the criteria for so designating such financial assets or financial liabilities on initial recognition; and~~
 - (iii) how the entity has satisfied the conditions in paragraph 9 of ~~[draft] IFRS X 9, 11A or 12 of IAS 39~~ for such designation. ~~For instruments designated in accordance with paragraph (b)(i) of the definition of a financial asset or financial liability at fair value through profit or loss in IAS 39, that disclosure includes a narrative description of the circumstances underlying the measurement or recognition inconsistency that would otherwise arise. For instruments designated in accordance with paragraph (b)(ii) of the definition of a financial asset or financial liability at fair value through profit or loss in IAS 39, that disclosure includes a narrative description of how designation at fair value through profit or loss is consistent with the entity's documented risk management or investment strategy.~~
- (b) ~~[deleted] the criteria for designating financial assets as available for sale.~~
 - (c) ...

Nature and extent of risks arising from financial instruments (paragraphs 31–42)

Maximum credit risk exposure (paragraph 36(a))

- B10 Activities that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to:
- (a) granting loans ~~and receivables~~ to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets.
 - (b) ...

Market risk – sensitivity analysis (paragraphs 40 and 41)

Interest rate risk

- B22 *Interest rate risk* arises on interest-bearing financial instruments recognised in the statement of financial position (eg ~~loans and receivables and fixed rate~~ debt instruments issued) and on some financial instruments not recognised in the statement of financial position (eg some loan commitments).

Other price risk

- B27 In accordance with paragraph 40(a), the sensitivity of profit or loss (that arises, for example, from instruments classified as at fair value through profit or loss ~~and impairments of available for sale financial assets~~) is disclosed separately from the sensitivity of equity (that arises, for example, from equity instruments whose changes in fair value are presented in other comprehensive income classified as available for sale).
- C11 Appendix D (Amendments to IFRS 7 if the Amendments to IAS 39 Financial Instruments: Recognition and Measurement—*The Fair Value Option* have not been applied) is deleted.

IAS 1 *Presentation of Financial Statements*

- C12 In paragraph 7, the definition of 'other comprehensive income' and paragraphs 68, 71, 82, 93 and 95 are amended and paragraph 139E is added as follows:

Definitions

7 ...

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.

The components of other comprehensive income include:

- (a) changes in revaluation surplus (see IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*);
- (b) actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of IAS 19 *Employee Benefits*;
- (c) gains and losses arising from translating the financial statements of a foreign operation (see IAS 21 *The Effects of Changes in Foreign Exchange Rates*);
- (d) gains and losses ~~on remeasuring available for sale financial assets (see IAS 39 *Financial Instruments: Recognition and Measurement*);~~ (including dividends) from equity instruments measured at fair value through other comprehensive income in accordance with paragraphs 21 and 22 of [draft] IFRS X *Financial Instruments: Classification and Measurement*;
- (e) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see IAS 39 *Financial Instruments: Recognition and Measurement*).

Structure and content

Statement of financial position

Current assets

- 68 The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets that meet the definition of classified as held for trading in [draft] IFRS X accordance with IAS 39) and the current portion of non-current financial assets.

Current liabilities

- 71 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of classified as held for trading in [draft] IFRS X accordance with IAS 39, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 74 and 75.

Statement of comprehensive income

Information to be presented in the statement of comprehensive income

- 82 As a minimum, the statement of comprehensive income shall include line items that present the following amounts for the period:
- (a) revenue;
 - (b) finance costs;
 - (c) share of the profit or loss of associates and joint ventures accounted for using the equity method;
 - (ca) gains and losses arising from the derecognition of financial assets and financial liabilities measured at amortised cost;
 - (d) ...

Other comprehensive income for the period

- 93 Other IFRSs specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. ~~For example, gains realised on the disposal of available for sale financial assets are included in profit or loss of the current period.~~ These amounts may have been recognised in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.
- 95 Reclassification adjustments arise, for example, on disposal of a foreign operation (see IAS 21), ~~on derecognition of available for sale financial assets (see IAS 39)~~ and when a hedged forecast transaction affects profit or loss (see paragraph 100 of IAS 39 in relation to cash flow hedges).

Transition and effective date

139E [Draft] IFRS X issued in [date to be inserted after exposure], amended the definition of 'other comprehensive income' in paragraph 7 and paragraphs 68, 71, 82, 93 and 95. An entity shall apply those amendments for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendments for that earlier period.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

C13 Paragraph 53 is amended and paragraph 54A is added as follows:

Impracticability in respect of retrospective application and retrospective restatement

53 Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured or disclosed in a prior period. For example, ~~when an entity corrects a prior period error in measuring financial assets previously classified as held to maturity investments in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, it does not change their basis of measurement for that period if management decided later not to hold them to maturity.~~ In addition, when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with IAS 19 *Employee Benefits*, it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior period were authorised for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

Effective date

54A [Draft] IFRS X *Financial Instruments: Classification and Measurement*, issued in [date to be inserted after exposure], amended paragraph 53. An entity shall apply that amendment for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendment for that earlier period.

IAS 12 *Income Taxes*

C14 Paragraph 20 is amended and paragraph 96 is added as follows:

Recognition of deferred tax liabilities and deferred tax assets

Taxable temporary differences

Assets carried at fair value

20 IFRSs permit or require certain assets to be carried at fair value or to be revalued (see, for example, IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets*, ~~[draft] IFRS X *Financial Instruments: Classification and Measurement*~~ ~~IAS 39 *Financial Instruments: Recognition and Measurement*~~ and IAS 40 *Investment Property*). In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (tax loss) for the current period. As a result, the tax base of the asset is adjusted and no temporary difference arises. In other jurisdictions, the revaluation or restatement of an asset does not affect taxable profit in the period of the revaluation or restatement and, consequently, the tax base of the asset is not adjusted. Nevertheless, the future recovery of the carrying amount will result in a taxable flow of economic benefits to the entity and the amount that will be deductible for tax purposes will differ from the amount of those economic benefits. The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset. This is true even if: ...

Effective date

96 [Draft] IFRS X issued in [date to be inserted after exposure], amended paragraph 20. An entity shall apply that amendment for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendment for that earlier period.

IAS 18 Revenue

C15 Paragraphs 6(d), 11 and 30 are amended and paragraph 39 is added as follows:

Scope

6 This Standard does not deal with revenue arising from:

- (d) changes in the fair value of financial assets and financial liabilities or their disposal (see [draft] IFRS X *Financial Instruments: Classification and Measurement* and IAS 39 *Financial Instruments: Recognition and Measurement*);

Measurement of revenue

11 In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. For example, an entity may provide interest free credit to the buyer or accept a note receivable bearing a below-market interest rate from the buyer as consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- (a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- (b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with paragraphs 29 and 30 and in accordance with IAS 39 and [draft] IFRS X.

Interest, royalties and dividends

- 30 Revenue shall be recognised on the following bases:
- (a) interest shall be recognised using the effective interest method as set out in Appendix A and paragraphs B28-B30 of [draft] IFRS X IAS 39, paragraphs 9 and AG5-AG8;
 - (b) royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement; and
 - (c) dividends shall be recognised when the shareholder's right to receive payment is established.

Effective date

- 39 [Draft] IFRS X issued in [date to be inserted after exposure], amended paragraphs 6(d), 11 and 30. An entity shall apply those amendments for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendments for that earlier period.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

C16 Paragraph 10A is amended and paragraph 44 is added as follows:

Government grants

10A The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with [draft] IFRS X *Financial Instruments: Classification and Measurement* and IAS 39 *Financial Instruments: Recognition and Measurement*. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with [draft] IFRS X ~~IAS 39~~ and the proceeds received. The benefit is accounted for in accordance with this Standard. The entity shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

Effective date

44 [Draft] IFRS X issued in [date to be inserted after exposure], amended paragraph 10A. An entity shall apply that amendment for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendment for that earlier period.

IAS 21 *The Effects of Changes in Foreign Exchange Rates*

C17 Paragraphs 3, 4 and 52(a) are amended and paragraph 60C is added as follows:

Scope

- 3 **This Standard shall be applied:** [footnote omitted]
- (a) **in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* and [draft] IFRS X *Financial Instruments: Classification and Measurement*;**
 - (b) **in translating the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation, proportionate consolidation or the equity method; and**
 - (c) **in translating an entity's results and financial position into a presentation currency.**
- 4 [Draft] IFRS X and IAS 39 ~~apply~~ **applies** to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of [draft] IFRS X and IAS 39 (eg some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.

Disclosure

- 52 **An entity shall disclose:**
- (a) **the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with [draft] IFRS X IAS 39; and**

...

Effective date and transition

- 60C [Draft] IFRS X issued in [date to be inserted after exposure], amended paragraphs 3, 4 and 52(a). An entity shall apply those amendments for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendments for that earlier period.

IAS 23 *Borrowing Costs*

C18 Paragraph 6(a) is amended and paragraph 29B is added as follows:

Definitions

- 6 Borrowing costs may include:
- (a) interest expense calculated using the effective interest method as described in [draft] IFRS X *Financial Instruments: Classification and Measurement* ~~IAS 39 *Financial Instruments: Recognition and Measurement*~~;
 - (b) ...
- 29B [Draft] IFRS X issued in [date to be inserted after exposure], amended paragraph 6(a). An entity shall apply that amendment for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendment for that earlier period.

IAS 27 Consolidated and Separate Financial Statements

- C19 Paragraphs 35, 37, 38 and 40 are amended and paragraph 45D is added as follows:

Loss of control

- 35 If a parent loses control of a subsidiary, the parent shall account for all amounts recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. For example, if a subsidiary has cumulative exchange differences relating to a foreign operation available for sale financial assets and the parent loses control of the subsidiary, the parent shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to the foreign operation ~~these assets~~. Similarly, if a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the parent transfers the revaluation surplus directly to retained earnings when it loses control of the subsidiary.
- 37 The fair value of any investment retained in the former subsidiary at the date when control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with [draft] IFRS X Financial Instruments: Classification and Measurement ~~IAS 39 Financial Instruments: Recognition and Measurement~~ or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements

38 When an entity prepares separate financial statements, it shall account for investments in subsidiaries, jointly controlled entities and associates either:

- (a) at cost, or
- (b) in accordance with [draft] IFRS X and IAS 39.

The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5. The measurement of investments accounted for in accordance with [draft] IFRS X IAS-39 is not changed in such circumstances.

40 Investments in jointly controlled entities and associates that are accounted for in accordance with [draft] IFRS X and IAS 39 in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements.

Effective date and transition

45D [Draft] IFRS X issued in [date to be inserted after exposure], amended paragraphs 35, 37, 38 and 40. An entity shall apply those amendments for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendments for that earlier period.

IAS 28 *Investments in Associates*

C20 Paragraphs 1 and 18–19A are amended and paragraph 41D is added as follows:

Scope

1 This Standard shall be applied in accounting for investments in associates. However, it does not apply to investments in associates held by:

- (a) venture capital organisations, or
- (b) mutual funds, unit trusts and similar entities including investment-linked insurance funds

that upon initial recognition are designated as at fair value through profit or loss or are ~~classified as held for trading and accounted for in accordance with [draft] IFRS X *Financial Instruments: Classification and Measurement* IAS 39 *Financial Instruments: Recognition and Measurement*~~. Such investments shall be measured at fair value in accordance with ~~[draft] IFRS X IAS 39~~, with changes in fair value recognised in profit or loss in the period of the change. An entity holding such an investment shall make the disclosures required by paragraph 37(f).

Application of the equity method

18 An investor shall discontinue the use of the equity method from the date when it ceases to have significant influence over an associate and shall account for the investment in accordance with ~~[draft] IFRS X and~~ IAS 39 from that date, provided the associate does not become a subsidiary or a joint venture as defined in IAS 31. On the loss of significant influence, the investor shall measure at fair value any investment the investor retains in the former associate. The investor shall recognise in profit or loss any difference between:

- (a) the fair value of any retained investment and any proceeds from disposing of the part interest in the associate; and
- (b) the carrying amount of the investment at the date when significant influence is lost.

- 19** When an investment ceases to be an associate and is accounted for in accordance with [draft] IFRS X and IAS 39, the fair value of the investment at the date when it ceases to be an associate shall be regarded as its fair value on initial recognition as a financial asset in accordance with [draft] IFRS X IAS 39.
- 19A If an investor loses significant influence over an associate, the investor shall account for all amounts recognised in other comprehensive income in relation to that associate on the same basis as would be required if the associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by an associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the investor reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over the associate. For example, if an associate has cumulative exchange differences relating to a foreign operation available for sale financial assets and the investor loses significant influence over the associate, the investor shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to the foreign operation ~~those assets~~. If an investor's ownership interest in an associate is reduced, but the investment continues to be an associate, the investor shall reclassify to profit or loss only a proportionate amount of the gain or loss previously recognised in other comprehensive income.

Effective date and transition

- 41D [Draft] IFRS X, issued in [date to be inserted after exposure], amended paragraphs 1 and 18–19A. An entity shall apply those amendments for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendments for that earlier period.

IAS 31 *Interests in Joint Ventures*

C21 Paragraphs 1, 45–45B and 51 are amended and paragraph 58C is added as follows:

Scope

1 This Standard shall be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:

- (a) venture capital organisations, or
- (b) mutual funds, unit trusts and similar entities including investment-linked insurance funds

that upon initial recognition are designated as at fair value through profit or loss or are ~~classified as held for trading and accounted for in accordance with [draft] IFRS X *Financial Instruments: Classification and Measurement* IAS 39 *Financial Instruments: Recognition and Measurement*~~. Such investments shall be measured at fair value in accordance with [draft] IFRS X IAS 39, with changes in fair value recognised in profit or loss in the period of the change. A venturer holding such an interest shall make the disclosures required by paragraphs 55 and 56.

Jointly controlled entities

Financial statements of a venturer

Exceptions to proportionate consolidation and equity method

- 45 When an investor ceases to have joint control over an entity, it shall account for any remaining investment in accordance with [draft] IFRS X and IAS 39 *Financial Instruments: Recognition and Measurement* from that date, provided that the former jointly controlled entity does not become a subsidiary or associate. From the date when a jointly controlled entity becomes a subsidiary of an investor, the investor shall account for its interest in accordance with IAS 27 and IFRS 3 *Business Combinations* (as revised in 2008). From the date when a jointly controlled entity becomes an associate of an investor, the investor shall account for its interest in accordance with IAS 28. On the loss of joint control, the investor shall measure at fair value any investment the investor retains in the former jointly controlled entity. The investor shall recognise in profit or loss any difference between:
- (a) the fair value of any retained investment and any proceeds from disposing of the part interest in the jointly controlled entity; and
 - (b) the carrying amount of the investment at the date when joint control is lost.
- 45A When an investment ceases to be a jointly controlled entity and is accounted for in accordance with [draft] IFRS X and IAS 39, the fair value of the investment when it ceases to be a jointly controlled entity shall be regarded as its fair value on initial recognition as a financial asset in accordance with [draft] IFRS X IAS 39.

- 45B If an investor loses joint control of an entity, the investor shall account for all amounts recognised in other comprehensive income in relation to that entity on the same basis as would be required if the jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the investor reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the investor loses joint control of the entity. For example, if a jointly controlled entity has cumulative exchange differences relating to a foreign operation ~~available-for-sale financial assets~~ and the investor loses joint control of the entity, the investor shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to the foreign operation ~~those assets~~. If an investor's ownership interest in a jointly controlled entity is reduced, but the investment continues to be a jointly controlled entity, the investor shall reclassify to profit or loss only a proportionate amount of the gain or loss previously recognised in other comprehensive income.

Reporting interests in joint ventures in the financial statements of an investor

- 51 **An investor in a joint venture that does not have joint control shall account for that investment in accordance with [draft] IFRS X and IAS 39 or, if it has significant influence in the joint venture, in accordance with IAS 28.**

Effective date and transition

- 58C [Draft] IFRS X issued in [date to be inserted after exposure], amended paragraphs 1, 45–45B and 51. An entity shall apply those amendments for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendments for that earlier period.

IAS 32 *Financial Instruments: Presentation*

- C22 Paragraphs 3, 4, 12, 23 and 31 are amended and paragraph 97E is added as follows:

Objective

- 3 The principles in this Standard complement the principles for recognising and measuring financial assets and financial liabilities in [draft] IFRS X *Financial Instruments: Classification and Measurement* and IAS 39 *Financial Instruments: Recognition and Measurement*, and for disclosing information about them in IFRS 7 *Financial Instruments: Disclosures*.

Scope

- 4 **This Standard shall be applied by all entities to all types of financial instruments except:**
- ...
- (d) **insurance contracts as defined in IFRS 4 *Insurance Contracts*. However, this Standard applies to derivatives that are embedded in insurance contracts if IAS 39 requires the entity to account for them separately. Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies [draft] IFRS X and IAS 39 in recognising and measuring the contracts, but shall apply IFRS 4 if the issuer elects, in accordance with paragraph 4(d) of IFRS 4, to apply IFRS 4 in recognising and measuring them.**
- (e) ...

Definitions (see also paragraphs AG3–AG23)

12 The following terms are defined in Appendix A of [draft] IFRS X and paragraph 9 of IAS 39 and are used in this Standard with the meaning specified in [draft] IFRS X and IAS 39.

- ~~•~~ ~~amortised cost of a financial asset or financial liability~~
- amortised cost
- ~~•~~ ~~available for sale financial assets~~
- derecognition
- derivative
- effective interest method
- effective interest rate
- ~~•~~ ~~financial asset or financial liability at fair value through profit or loss~~
- financial guarantee contract
- firm commitment
- forecast transaction
- hedge effectiveness
- hedged item
- hedging instrument
- held for trading
- ~~•~~ ~~held to maturity investments~~
- ~~•~~ ~~loans and receivables~~
- regular way purchase or sale
- transaction costs.

Presentation

Liabilities and equity (see also paragraphs AG13–AG14J and AG25–AG29A)

Settlement in the entity's own equity instruments (paragraph 16(b))

- 23 With the exception of the circumstances described in paragraphs 16A and 16B or paragraphs 16C and 16D, a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount (for example, for the present value of the forward repurchase price, option exercise price or other redemption amount). This is the case even if the contract itself is an equity instrument. One example is an entity's obligation under a forward contract to purchase its own equity instruments for cash. When the financial liability is recognised and measured initially under [draft] IFRS X and IAS 39, its fair value (the present value of the redemption amount) is reclassified from equity. Subsequently, the financial liability is measured in accordance with [draft] IFRS X ~~IAS 39~~. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity. An entity's contractual obligation to purchase its own equity instruments gives rise to a financial liability for the present value of the redemption amount even if the obligation to purchase is conditional on the counterparty exercising a right to redeem (eg a written put option that gives the counterparty the right to sell an entity's own equity instruments to the entity for a fixed price).
- 31 [Draft] IFRS X and IAS 39 deals with the measurement of financial assets and financial liabilities. Equity instruments are instruments that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Therefore, when the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The value of any derivative features (such as a call option) embedded in the

compound financial instrument other than the equity component (such as an equity conversion option) is included in the liability component. The sum of the carrying amounts assigned to the liability and equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognising the components of the instrument separately.

Effective date and transition

- 97E [Draft] IFRS X issued in [date to be inserted after exposure], amended paragraphs 3, 4, 12, 23, 31, AG2 and AG30. An entity shall apply those amendments for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendments for that earlier period.
- C23 In the Appendix (Application Guidance), paragraphs AG2 and AG30 are amended as follows:
- AG2 The Standard does not deal with the recognition or measurement of financial instruments. Requirements about the recognition and measurement of financial assets and financial liabilities are set out in [draft] IFRS X and IAS 39.

Presentation

Compound financial instruments (paragraphs 28–32)

- AG30 Paragraph 28 applies only to issuers of non-derivative compound financial instruments. Paragraph 28 does not deal with compound financial instruments from the perspective of holders. ~~IAS 39 deals with the separation of embedded derivatives from the perspective of holders of compound financial instruments that contain debt and equity features.~~

IAS 33 *Earnings per Share*

C24 Paragraph 34 is amended and paragraph 74B is added as follows:

Measurement

Diluted earnings per share

Earnings

34 After the potential ordinary shares are converted into ordinary shares, the items identified in paragraph 33(a)–(c) no longer arise. Instead, the new ordinary shares are entitled to participate in profit or loss attributable to ordinary equity holders of the parent entity. Therefore, profit or loss attributable to ordinary equity holders of the parent entity calculated in accordance with paragraph 12 is adjusted for the items identified in paragraph 33(a)–(c) and any related taxes. The expenses associated with potential ordinary shares include transaction costs and discounts accounted for in accordance with the effective interest method (see ~~paragraph 9 Appendix A of [draft] IFRS X *Financial Instruments: Classification and Measurement*~~ IAS 39 *Financial Instruments: Recognition and Measurement*, as revised in 2003).

Effective date

74B [Draft] IFRS X issued in [date to be inserted after exposure], amended paragraph 34. An entity shall apply that amendment for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendment for that earlier period.

IAS 39 *Financial instruments: Recognition and Measurement*

C25 Extensive changes are proposed to IAS 39 that are not reproduced here. Some paragraphs have been moved to [draft] IFRS X and others have been amended or deleted. The following table indicates the extent of change.

| Paragraph(s) in IAS 39 | Status |
|------------------------|---|
| Throughout | The term <i>hybrid instrument</i> has been changed throughout IAS 39 to <i>hybrid contract</i> . |
| 1–7 | Remain in IAS 39 |
| 8, 9 | <p>The following definitions will be deleted from IAS 39 and inserted into [draft] IFRS X:</p> <ul style="list-style-type: none"> • amortised cost of a financial asset or financial liability • effective interest method • effective interest rate • transaction costs <p>The portion of the definition of a <i>financial asset or financial liability at fair value through profit or loss (FVTPL)</i> that describes <i>held for trading</i> will be inserted into [draft] IFRS X. The rest of the definition of FVTPL will be deleted.</p> <p>The following definitions have been deleted:</p> <ul style="list-style-type: none"> • held-to-maturity investments • loans and receivables • available-for-sale financial assets <p>As a result of some of these changes, paragraph 8 of IAS 39 will be amended to refer to the particular definitions in the [draft] IFRS.</p> <p>All other definitions will remain unchanged.</p> |
| 10, 11 | Remain in IAS 39 but amended to refer only to hybrid contracts with non-financial hosts. Portions of paragraph 10 are also inserted as paragraph 6 in [draft] IFRS X. |

DRAFT AMENDMENTS TO OTHER IFRSs AND GUIDANCE JULY 2009

| | |
|-----------------------|---|
| 11A | Deleted |
| 12, 13 | Remain in IAS 39 but amended to refer only to hybrid contracts with non-financial hosts. The guidance related to reclassifications is deleted from paragraph 12. |
| 14-42 | Remain in IAS 39 but paragraphs 26(b), 27(b), 31, 33, 34(b) and 35 will be amended to refer to the relevant measurement guidance in [draft] IFRS X. |
| 43 | Replaced by the requirements in paragraph 11 of [draft] IFRS X |
| 44 | Remains in IAS 39 |
| 45-47 | Replaced by the requirements in paragraphs 12-18 of [draft] IFRS X |
| 48-49 | Remain in IAS 39 |
| 50-54 | Deleted |
| 55, 56 | Replaced by the requirements in paragraphs 19-22 of [draft] IFRS X |
| 57 | Remains in IAS 39 but will be amended to refer only to financial assets measured at amortised cost |
| 58 | Remains in IAS 39 but will be amended to refer to the relevant measurement guidance in [draft] IFRS X |
| 59, 60 | Remain in IAS 39 |
| 61 | Deleted |
| 62-65 | Remain in IAS 39 |
| 66-70 | Deleted |
| 71-78 | Remain in IAS 39 |
| 79 | Deleted |
| 80-102 | Remain in IAS 39 but paragraph 88(d) will be amended to refer to the relevant measurement guidance in [draft] IFRS X and the last two sentences of paragraph 89(b) have been deleted. |
| 103-108C, 109 and 110 | Remain in IAS 39 |
| AG1-AG4A | Remain in IAS 39 |
| AG4B-AG4G | Replaced by the requirements in paragraphs B14-B19 in [draft] IFRS X |
| AG4H-AG4K | Deleted |

FINANCIAL INSTRUMENTS: CLASSIFICATION AND MEASUREMENT

| | |
|--------------|---|
| AG5-AG8 | Replaced by the requirements in paragraphs B28-B30 in [draft] IFRS X |
| AG9-AG12A | Remain in IAS 39 |
| AG13-AG15 | Replaced by the requirements in paragraphs B31-B33 in [draft] IFRS X |
| AG16-AG27 | Deleted |
| AG28, AG29 | Remain in IAS 39 |
| AG30 | Remains in IAS 39 but will be amended to refer only to hybrid contracts with non-financial hosts: <ul style="list-style-type: none"> • the examples in (a)-(c), (f) and (h) are deleted • the examples in (d)-(e) and (g) are amended |
| AG31, AG32 | Deleted |
| AG33 | Remains in IAS 39 will be amended to refer only to hybrid contracts with non-financial hosts: <ul style="list-style-type: none"> • the examples in (c) and (e) are deleted • the examples in (a), (b), (d) and (g) are amended • the examples in (f) and (h) remain the same |
| AG33A, AG33B | Deleted |
| AG34-AG63 | Remain in IAS 39 |
| AG64-AG67 | Replaced by the requirements in paragraphs B20-B23 in [draft] IFRS X |
| AG68 | Deleted |
| AG69-AG79 | Remain in IAS 39 |
| AG80, AG81 | Deleted |
| AG82 | Remains in IAS 39 |
| AG83 | Replaced by the requirements in paragraphs B24-B27 in [draft] IFRS X |
| AG84-AG93 | Remain in IAS 39 but paragraph AG84 will be amended to remove references to the categories of 'loans and receivables' and 'held-to-maturity investment'. |

DRAFT AMENDMENTS TO OTHER IFRSs AND GUIDANCE JULY 2009

| | |
|------------|---|
| AG94 | Remains in IAS 39 |
| AG95, AG96 | Deleted |
| AG97-AG133 | Remain in IAS 39 but paragraph AG99F(c) will be amended to assume that the inflation-linked bond is measured at amortised cost in its entirety. |

IFRIC 9 *Reassessment of Embedded Derivatives*

C26 In the 'References' section, a reference to [draft] IFRS X *Financial Instruments: Classification and Measurement* is added. Paragraph 7A is deleted, paragraphs 2, 3, 7 and 8 are amended and paragraph 12 is added as follows:

Background

- 2 IAS 39 paragraph 11 requires an embedded derivative to be separated from ~~the~~ a non-financial host contract and accounted for as a derivative if, and only if:
- (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the non-financial host ~~contract~~; and
 - (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; ~~and~~
 - (c) ~~[deleted] the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (ie a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).~~

Scope

- 3 Subject to paragraphs 4 and 5 below, this Interpretation applies to all embedded derivatives that are separated from a non-financial host and accounted for in accordance with ~~within the scope of~~ IAS 39.

Consensus

- 7 An entity shall assess whether an embedded derivative is required to be separated from the non-financial host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is ~~either~~ (a) a change in the terms of the contract that significantly modifies the cash flows that otherwise would be

required under the contract or ~~(b) a reclassification of a financial asset out of the fair value through profit or loss category,~~ in which cases an assessment is required. An entity determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the non-financial host ~~contract~~ or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

7A ~~[Deleted] The assessment whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on reclassification of a financial asset out of the fair value through profit or loss category in accordance with paragraph 7 shall be made on the basis of the circumstances that existed on the later date of:~~

- ~~(a) when the entity first became a party to the contract; and~~
- ~~(b) a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.~~

~~For the purpose of this assessment paragraph 11(c) of IAS 39 shall not be applied (ie the hybrid (combined) contract shall be treated as if it had not been measured at fair value with changes in fair value recognised in profit or loss). If an entity is unable to make this assessment the hybrid (combined) contract shall remain classified as at fair value through profit or loss in its entirety.~~

8 A first-time adopter shall assess whether an embedded derivative is required to be separated from the non-financial host ~~contract~~ and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date a reassessment is required by paragraph 7.

Effective date and transition

12 [Draft] IFRS X, issued in [date to be inserted after exposure], deleted paragraph 7A and amended paragraphs 2, 3, 7 and 8. An entity shall apply those amendments for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendments for that earlier period.

IFRIC 10 *Interim Financial Reporting and Impairment*

- C27 In the 'References' section, a reference to [draft] IFRS X *Financial Instruments: Classification and Measurement* is added. Paragraphs 1, 2, 7 and 8 are amended, paragraph 11 is added and paragraphs 5 and 6 are deleted as follows:

Background

- 1 An entity is required to assess goodwill for impairment at the end of each reporting period, ~~to assess investments in equity instruments and in financial assets carried at cost for impairment at the end of each reporting period~~ and, if required, to recognise an impairment loss at that date in accordance with IAS 36 ~~and IAS 39~~. However, at the end of a subsequent reporting period, conditions may have so changed that the impairment loss would have been reduced or avoided had the impairment assessment been made only at that date. This Interpretation provides guidance on whether such impairment losses should ever be reversed.
- 2 The Interpretation addresses the interaction between the requirements of IAS 34 and the recognition of impairment losses on goodwill in IAS 36 ~~and certain financial assets in IAS 39~~, and the effect of that interaction on subsequent interim and annual financial statements.

Issue

- 7 The Interpretation addresses the following issue:

Should an entity reverse impairment losses recognised in an interim period on goodwill ~~and investments in equity instruments and in financial assets carried at cost~~ if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only at the end of a subsequent reporting period?

Consensus

- 8 An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill ~~or an investment in either an equity instrument or a financial asset carried at cost~~.

Effective date and transition

- 11 [Draft] IFRS X, issued in [date to be inserted after exposure], amended paragraphs 1, 2, 7 and 8 and deleted paragraphs 5 and 6. An entity shall apply those amendments for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendments for that earlier period.

IFRIC 12 *Service Concession Arrangements*

- C28 In the 'References' section, a reference to [draft] IFRS X *Financial Instruments: Classification and Measurement* is added. Paragraphs 23–25 are amended and paragraph 28A is added as follows:

Consensus

Financial asset

- 23 IASs 32 and 39 and [draft] IFRS X and IFRS 7 apply to the financial asset recognised under paragraphs 16 and 18.
- 24 The amount due from or at the direction of the grantor is accounted for in accordance with [draft] IFRS X and IAS 39 as:
- (a) ~~at amortised cost a loan or receivable;~~
 - (b) ~~at fair value through profit or loss an available-for-sale financial asset;~~ or
 - (c) if so designated upon initial recognition, a financial asset at fair value through profit or loss, if the conditions for that classification are met.
- 25 If the amount due from the grantor is accounted for ~~either as a loan or receivable or as an available-for-sale financial asset~~ at amortised cost, [draft] IFRS X ~~IAS 39~~ requires interest calculated using the effective interest method to be recognised in profit or loss.

Effective date

- 28A [Draft] IFRS X, issued in [date to be inserted after exposure], amended paragraphs 23–25. An entity shall apply those amendments for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendments for that earlier period.

SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease

- C29 In the 'References' section, a reference to [draft] IFRS X *Financial Instruments: Classification and Measurement* is added. Paragraph 7 is amended and a new paragraph added to the 'Effective date' section as follows:

Consensus

- 7 Other obligations of an arrangement, including any guarantees provided and obligations incurred upon early termination, shall be accounted for under IAS 37, [draft] IFRS X and IAS 39, or IFRS 4, depending on the terms.

Effective date

This Interpretation becomes effective on 31 December 2001. Changes in accounting policies shall be accounted for in accordance with IAS 8.

[Draft] IFRS X, issued in [date to be inserted after exposure], amended paragraph 7. An entity shall apply that amendment for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies [draft] IFRS X for an earlier period, it shall apply the amendment for that earlier period.

[Draft] Amendments to guidance on other IFRSs

The following [draft] amendments to guidance on IFRSs are necessary in order to ensure consistency with [draft] IFRS X *Financial Instruments: Classification and Measurement* and the related amendments to other IFRSs. In the amended paragraphs, new text is underlined and deleted text is struck through.

Some guidance on implementing IAS 39 *Financial Instruments: Recognition and Measurement* has been amended to ensure consistency with the proposals in the [draft] IFRS.

For the purpose of the exposure draft, all of that amended guidance remains in IAS 39. The Board will decide at a later date on the location of that guidance.

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

IGA1 In the Implementation Guidance accompanying IFRS 1, paragraphs IG55, IG56, IG58, IG58A and IG59 are amended as follows:

IAS 39 *Financial Instruments: Recognition and Measurement*

Embedded derivatives

IG55 When IAS 39 requires an entity to separate an embedded derivative from a non-financial host contract, the initial carrying amounts of the components at the date when the instrument first satisfies the recognition criteria in IAS 39 reflect circumstances at that date (IAS 39 paragraph 11). If the entity cannot determine the initial carrying amounts of the embedded derivative and non-financial host ~~contract~~ reliably, it treats the entire combined contract as a financial instrument held for trading at fair value through profit or loss (IAS 39 paragraph 12). ~~This results in fair value measurement (except when the entity cannot determine a reliable fair value, see IAS 39 paragraph 46(c)), with changes in fair value recognised in profit or loss.~~

Measurement

IG56 In preparing its opening IFRS statement of financial position, an entity applies the criteria in ~~IAS 39~~ [draft] IFRS X *Financial Instruments: Classification and Measurement* to identify on the basis of the facts and circumstances that exist at the date of transition to IFRSs those financial assets and financial liabilities that are measured at fair value and those that are measured at amortised cost. The resulting classifications are applied retrospectively.
~~In particular:~~

(a)-(e) ~~[deleted]~~

IG58 An entity's estimates of ~~loan~~ impairments of financial assets measured at amortised cost at the date of transition to IFRSs are consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those assumptions were in error (paragraph 14 of the IFRS). The entity treats the impact of any later revisions to those estimates as impairment losses (or, if the criteria in IAS 39 are met, reversals of impairment losses) of the period in which it makes the revisions.

Transition adjustments

IG58A An entity shall treat an adjustment to the carrying amount of a financial asset or financial liability as a transition adjustment to be recognised in the opening balance of retained earnings at the date of transition to IFRSs only to the extent that it results from adopting ~~IAS 39~~ [draft] IFRS X. Because all derivatives, other than those that are financial guarantee contracts or are designated and effective hedging instruments, are classified as ~~held for trading at fair value through profit or loss~~, the differences between the previous carrying amount (which may have been zero) and the fair value of the derivatives are recognised as an adjustment of the balance of retained earnings at the beginning of the financial year in which ~~IAS 39~~ [draft] IFRS X is initially applied (other than for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

IG59 An entity may, in accordance with its previous GAAP, have measured investments at fair value and recognised the revaluation gain outside profit or loss. If an investment is classified as at fair value through profit or loss, the ~~pre-IAS 39 [draft] IFRS X~~ revaluation gain that had been recognised outside profit or loss is reclassified into retained earnings on initial application of IAS 39 [draft] IFRS X. If, on initial application of IAS 39 [draft] IFRS X, an investment in an equity instrument is classified as available for sale at fair value through other comprehensive income, then the ~~pre-IAS 39 [draft] IFRS X~~ revaluation gain is recognised in a separate component of equity. Subsequently, the entity recognises gains, ~~and~~ losses and dividends on the ~~available for sale~~ financial asset in other comprehensive income and accumulates the cumulative gains, ~~and~~ losses and dividends in that separate component of equity. ~~until the investment is impaired, sold, collected or otherwise disposed of. On subsequent derecognition or impairment of the available for sale financial asset, the entity reclassifies to profit or loss the cumulative gain or loss remaining in equity (IAS 39 paragraph 55(b)). The amounts recognised in that separate component of equity may be transferred within equity.~~

IGA2 IG Example 11 in paragraph IG63 is amended as follows:

The table 'Reconciliation of equity at 1 January 20X4 (date of transition to IFRSs)' is amended to read as follows:

| Reconciliation of equity at 1 January 20X4 (date of transition to IFRSs) | | | | |
|---|-------------------------------|---------------------------------|---|---------------------|
| Note | | <i>Previous GAAP CU</i> | <i>Effect of transition to IFRSs CU</i> | <i>IFRSs CU</i> |
| 1 | Property, plant and equipment | 8,299 | 100 | 8,399 |
| 2 | Goodwill | 1,220 | 150 | 1,370 |
| 2 | Intangible assets | 208 | (150) | 58 |
| 3 | Financial assets | 3,471 | 420 | 3,891 |
| | Total non-current assets | 13,198 | 520 | 13,718 |
| | | | | <i>continued...</i> |

DRAFT AMENDMENTS TO OTHER IFRSs AND GUIDANCE JULY 2009

| <i>...continued</i> | | | | |
|---------------------|-------------------------------------|---------------|--------------|---------------|
| | Trade and other receivables | 3,710 | 0 | 3,710 |
| 4 | Inventories | 2,962 | 400 | 3,362 |
| 5 | Other receivables | 333 | 431 | 764 |
| | Cash and cash equivalents | 748 | 0 | 748 |
| | Total current assets | <u>7,753</u> | <u>831</u> | <u>8,584</u> |
| | Total assets | <u>20,951</u> | <u>1,351</u> | <u>22,302</u> |
| | Interest-bearing loans | 9,396 | 0 | 9,396 |
| | Trade and other payables | 4,124 | 0 | 4,124 |
| 6 | Employee benefits | 0 | 66 | 66 |
| 7 | Restructuring provision | 250 | (250) | 0 |
| | Current tax liability | 42 | 0 | 42 |
| 8 | Deferred tax liability | 579 | 460 | 1,039 |
| | Total liabilities | <u>14,391</u> | <u>276</u> | <u>14,667</u> |
| | Total assets less total liabilities | <u>6,560</u> | <u>1,075</u> | <u>7,635</u> |
| | Issued capital | 1,500 | 0 | 1,500 |
| 5 | Hedging reserve | 0 | 302 | 302 |
| 9 | Retained earnings | 5,060 | 773 | 5,833 |
| | Total equity | <u>6,560</u> | <u>1,075</u> | <u>7,635</u> |

FINANCIAL INSTRUMENTS: CLASSIFICATION AND MEASUREMENT

Note 3 to the reconciliation of equity at 1 January 20X4 is amended as follows:

| | |
|---|--|
| 3 | Financial assets are all classified as available for sale at fair value through profit or loss in accordance with IFRSs and are carried at their fair value of CU3,891. They were carried at cost of CU3,471 in accordance with previous GAAP. The resulting gains of CU294 (CU420, less related deferred tax of CU126) are included in the revaluation surplus <u>retained earnings</u> . |
|---|--|

Note 9 to the reconciliation of equity at 1 January 20X4 is amended to read as follows:

| | | |
|---|--|------------|
| 9 | The adjustments to retained earnings are as follows: | |
| | | CU |
| | Depreciation (note 1) | 100 |
| | Financial assets | 420 |
| | Production overhead (note 4) | 400 |
| | Pension liability (note 6) | (66) |
| | Restructuring provision (note 7) | 250 |
| | Tax effect of the above | (331) |
| | Total adjustment to retained earnings | <u>773</u> |

The reconciliation of total comprehensive income for 20X4 is amended to read as follows:

| Reconciliation of total comprehensive income for 20X4 | | | |
|--|---------------------------------|---|---------------------|
| Note | <i>Previous GAAP CU</i> | <i>Effect of transition to IFRSs CU</i> | <i>IFRSs CU</i> |
| | <u> </u> | <u> </u> | <u> </u> |
| | 20,910 | 0 | 20,910 |
| 1,2,3 | (15,283) | (97) | (15,380) |
| | <u>5,627</u> | <u>(97)</u> | <u>5,530</u> |
| 6 | 0 | 180 | 180 |
| | | | <i>continued...</i> |

| <i>...continued</i> | | | | |
|---------------------|--|---------|-------|---------|
| 1 | Distribution costs | (1,907) | (30) | (1,937) |
| 1,4 | Administrative expenses | (2,842) | (300) | (3,142) |
| | Finance income | 1,446 | 0 | 1,446 |
| | Finance costs | (1,902) | 0 | (1,902) |
| | Profit before tax | 422 | (247) | 175 |
| 5 | Tax expense | (158) | 74 | (84) |
| | Profit (loss) for the year | 264 | (173) | 91 |
| 7 | Cash flow hedges | 0 | (40) | (40) |
| 8 | Tax relating to other comprehensive income | 0 | (29) | (29) |
| | Other comprehensive income | 0 | (69) | (69) |
| | Total comprehensive income | 264 | (242) | 22 |

Note 6 to the reconciliation of total comprehensive income for 20X4 is amended as follows:

| | |
|---|---|
| 6 | Available for sale Financial assets <u>at fair value through profit or loss</u> carried at fair value in accordance with IFRSs increased in value by CU180 during 20X4. They were carried at cost in accordance with previous GAAP. The entity sold available for sale financial assets during the year, recognising a gain of CU40 in profit or loss. Of that realised gain CU30 had been included in the revaluation surplus as at 1 January 20X4 and is reclassified from revaluation surplus to profit or loss (as a reclassification adjustment). |
|---|---|

IFRS 7 Financial Instruments: Disclosures

IGA3 In the Implementation Guidance accompanying IFRS 7, the table in paragraph IG13A is amended to read as follows:

| Assets measured at fair value | | | | |
|---|---|-------------------|-------------------|-------------------|
| Description | Fair value measurement at end of the reporting period using: | | | |
| | | Level 1 | Level 2 | Level 3 |
| | 31 Dec 20X2 | CU million | CU million | CU million |
| Financial assets at fair value through profit or loss | | | | |
| Trading securities | 100 | 40 | 55 | 5 |
| Trading derivatives | 39 | 17 | 20 | 2 |
| Financial assets at fair value through other comprehensive income | | | | |
| Equity investments | 75 | 30 | 40 | 5 |
| Total | <u>214</u> | <u>87</u> | <u>115</u> | <u>12</u> |

(Note: For liabilities, a similar table might be presented.)

IGA4 The table in paragraph IG13B is amended to read as follows:

| Assets measured at fair value based on Level 3 | | | | |
|---|--|----------------------------|---------------------------|-------------------|
| | Fair value measurement at the end of the reporting period | | | |
| | Financial assets at fair value | | | Total |
| | Trading securities | Trading derivatives | Equity investments | |
| | CU million | CU million | CU million | CU million |
| Opening balance | 6 | 5 | 3 | 14 |
| Total gains or losses | | | | |
| in profit or loss | (2) | (2) | - | (4) |
| in other comprehensive income | - | - | 1 | 1 |
| Purchases | 1 | 2 | 1 | 4 |

continued...

| <i>...continued</i> | | | |
|---|------------|------------|----------------|
| Issues | - | - | - |
| Settlement | - | (1) | (1) |
| Transfers out of Level 3 | - | (2) | (2) |
| Closing balance | <u>5</u> | <u>2</u> | <u>5</u> |
| Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period | <u>(1)</u> | <u>(1)</u> | <u>-</u> |
| Gains or losses included in profit or loss for the period (above) are presented in trading income and in other income as follows: | | | |
| | | | Trading Income |
| Total gains or losses included in profit or loss for the period | | | <u>(4)</u> |
| Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period | | | <u>(2)</u> |
| (Note: For liabilities, a similar table might be presented.) | | | |

IGA5 Paragraph IG36 is amended as follows:

IG36 The following example illustrates the application of the disclosure requirement in paragraph 40(a):

Interest rate risk

At 31 December 20X2, if interest rates at that date had been 10 basis points lower with all other variables held constant, post-tax profit for the year would have been CU1.7 million (20X1—CU2.4 million) higher, arising mainly as a result of lower interest expense on variable borrowings, ~~and other comprehensive income would have been CU2.8 million (20X1—CU3.2 million) higher, arising mainly as a result of an increase in the fair value of fixed rate financial assets classified as available for sale.~~ If interest rates had been 10 basis points higher, with all other variables held constant, post-tax profit would have been CU1.5 million (20X1—CU2.1 million) lower, arising mainly as a result of higher interest expense on variable borrowings, ~~and other comprehensive income would have been CU3.0 million (20X1—CU3.4 million) lower, arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified as available for sale.~~ Profit is more sensitive to interest rate decreases than increases because of borrowings with capped interest rates. The sensitivity is lower in 20X2 than in 20X1 because of a reduction in outstanding borrowings that has occurred as the entity's debt has matured (see note X). [footnote omitted] ...

IAS 1 *Presentation of Financial Statements*

IGA6 In the guidance on implementing IAS 1, the heading above paragraph IG7 and paragraphs IG7-IG9 are deleted. Paragraph IG2 is amended as follows:

Illustrative financial statement structure

IG2 The guidance is in three sections. Paragraphs IG3-IG6 provide examples of the presentation of financial statements. Paragraphs IG7-IG9 ~~have been deleted, provide an example of the determination of reclassification adjustments for available-for-sale financial assets in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.~~ Paragraphs IG10 and IG11 provide examples of capital disclosures.

IGA7 In the illustrative financial statements, references to 'Available-for-sale financial assets' are replaced by 'Investments in equity instruments'. The heading and table 'Disclosure of components of other comprehensive income' are amended to read as follows:

Part I: Illustrative presentation of financial statements

Disclosure of components of other comprehensive income

[footnote omitted]

Notes

Year ended 31 December 20X7

(in thousands of currency units)

| | 20X7 | 20X6 |
|--|----------|---------------------|
| Other comprehensive income: | | |
| Exchange differences on translating foreign operations | 5,334 | 10,667 |
| Investments in equity instruments | (24,000) | 26,667 |
| Cash flow hedges: | | |
| Gains (losses) arising during the year | (4,667) | (4,000) |
| Less: Reclassification adjustments for gains (losses) included in profit or loss | 3,333 | — |
| | | <i>continued...</i> |

FINANCIAL INSTRUMENTS: CLASSIFICATION AND MEASUREMENT

...continued

| | | | | |
|--|-----|----------|---|---------|
| Less: Adjustments for amounts transferred to initial carrying amount of hedged items | 667 | (667) | — | (4,000) |
| Gains on property revaluation | | 933 | | 3,367 |
| Actuarial gains (losses) on defined benefit pension plans | | (667) | | 1,333 |
| Share of other comprehensive income of associates | | 400 | | (700) |
| Other comprehensive income | | (18,667) | | 37,334 |
| Income tax relating to components of other comprehensive income | | 4,667 | | (9,334) |
| Other comprehensive income for the year | | (14,000) | | 28,000 |

IGA8 The second paragraph in footnote (k) to the illustrative financial statements is amended as follows:

- (k) The amount included in the translation, investments in equity instruments available for sale and cash flow hedge reserves represent other comprehensive income for each component, net of tax and non-controlling interests, eg other comprehensive income related to investments in equity instruments available for sale ~~financial assets~~ for 20X6 of 16,000 is 26,667, less tax 6,667, less non-controlling interests 4,000.

IGA9 The second paragraph in footnote (l) to the illustrative financial statements is amended as follows:

- (l) The amount included in the translation, investment in equity instruments available for sale and cash flow hedge reserves represent other comprehensive income for each component, net of tax and non-controlling interests, eg other comprehensive income related to the translation of foreign operations for 20X7 of 3,200 is 5,334, less tax 1,334, less non-controlling interests 800.

IAS 18 Revenue

IGA10 In the appendix to IAS 18, paragraphs 5 and 14 are amended as follows:

Sale of goods

5 ...

For a sale and repurchase agreement on an asset other than a financial asset, the terms of the agreement need to be analysed to ascertain whether, in substance, the seller has transferred the risks and rewards of ownership to the buyer and hence revenue is recognised. When the seller has retained the risks and rewards of ownership, even though legal title has been transferred, the transaction is a financing arrangement and does not give rise to revenue. For a sale and repurchase agreement on a financial asset, ~~[draft] IFRS X Financial Instruments: Classification and Measurement and IAS 39 Financial Instruments: Recognition and Measurement~~ ~~apply~~ ~~applies~~.

Rendering of services

14 *Financial service fees*

(a) *Fees that are an integral part of the effective interest rate of a financial instrument.*

...

(i) *Origination fees received by the entity relating to the creation or acquisition of a financial asset other than one that under ~~[draft] IFRS X IAS 39~~ is classified as a financial asset 'at fair value through profit or loss'.*

Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument and, together with the related transaction costs [footnote omitted] (as defined in ~~[draft] IFRS X IAS 39~~), are deferred and recognised as an adjustment to the effective interest rate.

- (ii) *Commitment fees received by the entity to originate a loan when the loan commitment is outside the scope of IAS 39.*

If it is probable that the entity will enter into a specific lending arrangement and the loan commitment is not within the scope of IAS 39, the commitment fee received is regarded as compensation for an ongoing involvement with the acquisition of a financial instrument and, together with the related transaction costs (as defined in ~~[draft] IFRS X IAS 39~~), is deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the entity making the loan, the fee is recognised as revenue on expiry. Loan commitments that are within the scope of IAS 39 are accounted for as derivatives and measured at fair value.

- (iii) *Origination fees received on issuing financial liabilities measured at amortised cost.*

These fees are an integral part of generating an involvement with a financial liability. When a financial liability is not classified as 'at fair value through profit or loss', the origination fees received are included, with the related transaction costs (as defined in ~~[draft] IFRS X IAS 39~~) incurred, in the initial carrying amount of the financial liability and recognised as an adjustment to the effective interest rate. An entity distinguishes fees and costs that are an integral part of the effective interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services.

(b) *Fees earned as services are provided.*

...

(iii) *Investment management fees.*

Fees charged for managing investments are recognised as revenue as the services are provided.

Incremental costs that are directly attributable to securing an investment management contract are recognised as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered. As in ~~[draft] IFRS X IAS 39~~, an incremental cost is one that would not have been incurred if the entity had not secured the investment management contract. The asset represents the entity's contractual right to benefit from providing investment management services, and is amortised as the entity recognises the related revenue. If the entity has a portfolio of investment management contracts, it may assess their recoverability on a portfolio basis.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

IGA11 In Appendix C (Examples: Recognition), Example 9 is amended as follows:

Example 9 A single guarantee

On 31 December 20X0, Entity A gives a guarantee of certain borrowings of Entity B, whose financial condition at that time is sound. During 20X1, the financial condition of Entity B deteriorates and at 30 June 20X1 Entity B files for protection from its creditors.

This contract meets the definition of an insurance contract in IFRS 4 *Insurance Contracts*, but is within the scope of [draft] IFRS X *Financial Instruments: Classification and Measurement* and IAS 39 *Financial Instruments: Recognition and Measurement*, because it also meets the definition of a financial guarantee contract in IAS 39. If an issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either IAS 39 and [draft] IFRS X or IFRS 4 to such financial guarantee contracts. IFRS 4 permits the issuer to continue its existing accounting policies for insurance contracts if specified minimum requirements are satisfied. IFRS 4 also permits changes in accounting policies that meet specified criteria. The following is an example of an accounting policy that IFRS 4 permits and that also complies with the requirements in IAS 39 and [draft] IFRS X for financial guarantee contracts within the scope of IAS 39 and [draft] IFRS X.

IAS 39 *Financial Instruments: Recognition and Measurement*

IGA12 In the guidance on implementing IAS 39 the following Questions and Answers (Q&A) are deleted:

- Section B: Definitions B.12–B.23
- Section C: Embedded Derivatives C.1–C.5, C.10, C.11
- Section E: Measurement E.3.1, E.3.2, E.4.9, E.4.10
- Section F: Hedging F.2.9–F.2.11, F.2.19, F.2.20

IGA13 In Q&A B.4, the last paragraph of the answer is amended as follows:

B.4 Definition of a derivative: prepaid interest rate swap (fixed rate payment obligation prepaid at inception or subsequently)

If the fixed leg is prepaid during the term, that would be regarded as a termination of the old swap and an origination of a new instrument that is evaluated under IAS 39 and [draft] IFRS X.

IGA14 In Q&A B.11, the answer is amended as follows:

B.11 Definition of held for trading: portfolio with a recent actual pattern of short-term profit-taking

Although the term ‘portfolio’ is not explicitly defined in [draft] IFRS X IAS 39, the context in which it is used suggests that a portfolio is a group of financial assets or financial liabilities that are managed as part of that group (IAS 39.9 [draft] IFRS X Appendix A). If there is evidence of a recent actual pattern of short-term profit-taking on financial instruments included in such a portfolio, those financial instruments ~~qualify as~~ meet the definition of held for trading ([draft] IFRS X Appendix A) and are measured at fair value through profit or loss even though an individual financial instrument may in fact be held for a longer period of time.

IGA15 In Q&A B.24, the answer is amended as follows:

B.24 Definition of amortised cost: perpetual debt instruments with fixed or market-based variable rate

No. Since there are no repayments of principal, there is no amortisation of the difference between the initial amount and the maturity amount if the rate of interest is fixed or specified as a market-based variable rate. Because interest payments are fixed or market-based and will be paid in perpetuity, the amortised cost (the present value of the stream of future cash payments discounted at the effective interest rate) equals the principal amount in each period (~~IAS 39.9~~ [draft] IFRS X Appendix A).

IGA16 In Q&A B.26, the answer is amended as follows:

B.26 Example of calculating amortised cost: financial asset

Under ~~IAS 39~~ [draft] IFRS X, amortised cost is calculated using the effective interest method. The effective interest rate inherent in a financial instrument is the rate that exactly discounts the estimated cash flows associated with the financial instrument through the expected life of the instrument or, where appropriate, a shorter period to the net carrying amount at initial recognition. The computation includes all fees and points paid or received that are an integral part of the effective interest rate, directly attributable transaction costs and all other premiums or discounts.

IGA17 In Q&A B.27, the answer is amended as follows:

B.27 Example of calculating amortised cost: debt instruments with stepped interest payments

No. Although there is no difference between the initial amount and maturity amount, an entity uses the effective interest method to allocate interest payments over the term of the debt instrument to achieve a constant rate on the carrying amount (~~IAS 39.9~~ [draft] IFRS X Appendix A).

...

IGA18 Q&A C.6 is amended as follows:

C.6 ~~Embedded derivatives: s~~Synthetic instruments

~~Entity A acquires a five-year floating rate debt instrument issued by Entity B. At the same time, it enters into a five-year pay-variable, receive-fixed interest rate swap with Entity C. Entity A regards the combination of the debt instrument and swap as a synthetic fixed rate instrument and measures classifies the instrument at amortised cost, as a held-to-maturity investment, since it has the positive intention and ability to hold it to maturity. Entity A contends that separate accounting for the swap is inappropriate since IAS 39.AG33(a) requires an embedded derivative to be classified together with its host instrument if the derivative is linked to an interest rate that can change the amount of interest that would otherwise be paid or received on the host debt contract. Is the entity's analysis correct Is it appropriate that Entity A accounts for the two financial instruments as a single combined instrument?~~

No. Embedded derivative instruments are terms and conditions that are included in non-derivative host contracts. It is generally inappropriate to treat two or more separate financial instruments as a single combined instrument ('synthetic instrument' accounting) for the purpose of applying IAS 39 and [draft] IFRS X. Each of the financial instruments has its own terms and conditions and each may be transferred or settled separately. Therefore, the debt instrument and the swap are classified separately. The transactions described here differ from the transactions discussed in Question B.6, which had no substance apart from the resulting interest rate swap.

FINANCIAL INSTRUMENTS: CLASSIFICATION AND MEASUREMENT

IGA19 The tables in Q&A D.2.1 are amended to read as follows:

| Settlement date accounting | | | |
|--|--|---|---|
| Balances | Financial assets measured at amortised cost | Financial assets measured at fair value with changes presented in other comprehensive income | Financial assets measured at fair value through profit or loss |
| 29 December 20X1 | | | |
| Financial asset | – | – | – |
| Financial liability | – | – | – |
| 31 December 20X1 | | | |
| Receivable | – | 2 | 2 |
| Financial asset | – | – | – |
| Financial liability | – | – | – |
| Other comprehensive income (fair value adjustment) | – | (2) | – |
| Retained earnings (through profit or loss) | – | – | (2) |
| 4 January 20X2 | | | |
| Receivable | – | – | – |
| Financial asset | 1,000 | 1,003 | 1,003 |
| Financial liability | – | – | – |
| Other comprehensive income (fair value adjustment) | – | (3) | – |
| Retained earnings (through profit or loss) | – | – | (3) |

DRAFT AMENDMENTS TO OTHER IFRSs AND GUIDANCE JULY 2009

| Trade date accounting | | | |
|--|--|---|---|
| Balances | Financial assets measured at amortised cost | Financial assets measured at fair value with changes presented in other comprehensive income | Financial assets measured at fair value through profit or loss |
| 29 December 20X1 | | | |
| Financial asset | 1,000 | 1,000 | 1,000 |
| Financial liability | (1,000) | (1,000) | (1,000) |
| 31 December 20X1 | | | |
| Receivable | – | – | – |
| Financial asset | 1,000 | 1,002 | 1,002 |
| Financial liability | (1,000) | (1,000) | (1,000) |
| Other comprehensive income (fair value adjustment) | – | (2) | – |
| Retained earnings (through profit or loss) | – | – | (2) |
| 4 January 20X2 | | | |
| Receivable | – | – | – |
| Financial asset | 1,000 | 1,003 | 1,003 |
| Financial liability | – | – | – |
| Other comprehensive income (fair value adjustment) | – | (3) | – |
| Retained earnings (through profit or loss) | – | – | (3) |

FINANCIAL INSTRUMENTS: CLASSIFICATION AND MEASUREMENT

IGA20 The tables in Q&A D.2.2 are amended to read as follows:

| Settlement date accounting | | |
|--|--|---|
| Balances | Financial assets measured at amortised cost | Financial assets measured at fair value through profit or loss |
| 29 December 20X2 | | |
| Receivable | – | – |
| Financial asset | 1,000 | 1,010 |
| Other comprehensive income (fair value adjustment) | – | – |
| Retained earnings (through profit or loss) | – | 10 |
| 31 December 20X2 | | |
| Receivable | – | – |
| Financial asset | 1,000 | 1,010 |
| Other comprehensive income (fair value adjustment) | – | – |
| Retained earnings (through profit or loss) | – | 10 |
| 4 January 20X3 | | |
| Equity (fair value adjustment) | – | – |
| Retained earnings (through profit or loss) | 10 | 10 |

DRAFT AMENDMENTS TO OTHER IFRSs AND GUIDANCE JULY 2009

| Trade date accounting | | |
|--|--|---|
| Balances | Financial assets measured at amortised cost | Financial assets measured at fair value through profit or loss |
| 29 December 20X2 | | |
| Receivable | 1,010 | 1,010 |
| Financial asset | – | – |
| Other comprehensive income (fair value adjustment) | – | – |
| Retained earnings (through profit or loss) | 10 | 10 |
| 31 December 20X2 | | |
| Receivable | 1,010 | 1,010 |
| Financial asset | – | – |
| Other comprehensive income (fair value adjustment) | – | – |
| Retained earnings (through profit or loss) | 10 | 10 |
| 4 January 20X3 | | |
| Other comprehensive income (fair value adjustment) | – | – |
| Retained earnings (through profit or loss) | 10 | 10 |

IGA21 Q&A E.1.1 is amended as follows:

E.1.1 Initial measurement: transaction costs

Transaction costs should be included in the initial measurement of financial assets and financial liabilities other than those at fair value through profit or loss. How should this requirement be applied in practice?

For financial assets, incremental costs that are directly attributable to the acquisition of the asset, for example fees and commissions, are added to the amount originally recognised. For financial liabilities, directly related costs of issuing debt are deducted from the amount of debt originally recognised. For financial instruments that are measured at fair value through profit or loss, transaction costs are not added to the fair value measurement at initial recognition.

For financial instruments that are carried at amortised cost, ~~such as held-to-maturity investments, loans and receivables, and financial liabilities that are not at fair value through profit or loss,~~ transaction costs are included in the calculation of amortised cost using the effective interest method and, in effect, amortised through profit or loss over the life of the instrument.

~~For available-for-sale financial assets with fair value changes presented in other comprehensive income, transaction costs are recognised in other comprehensive income as part of a change in fair value at the next remeasurement. If an available-for-sale financial asset has fixed or determinable payments and does not have an indefinite life, the transaction costs are amortised to profit or loss using the effective interest method. If an available-for-sale financial asset does not have fixed or determinable payments and has an indefinite life, the transaction costs are recognised in profit or loss when the asset is derecognised or becomes impaired.~~

Transaction costs expected to be incurred on transfer or disposal of a financial instrument are not included in the measurement of the financial instrument.

IGA22 Q&A E.3.3 is amended as follows:

E.3.3 IAS 39 [Draft] IFRS X and IAS 21 Exchange differences arising on translation of foreign entities: other comprehensive income or profit or loss?

IAS 21.32 and IAS 21.48 states that all exchange differences resulting from translating the financial statements of a foreign operation should be recognised in other comprehensive income until disposal of the net investment. This would include exchange differences arising from financial instruments carried at fair value through profit or loss, ~~which would include both financial assets classified as at fair value through profit or loss and financial assets that are available for sale.~~

~~IAS 39.55 [Draft] IFRS X requires that changes in fair value of financial assets classified as measured at fair value through profit or loss should be recognised in profit or loss and changes in fair value of available for sale investments should be recognised in other comprehensive income.~~

If the foreign operation is a subsidiary whose financial statements are consolidated with those of its parent, in the consolidated financial statements how are ~~IAS 39.55 [draft] IFRS X.19~~ and IAS 21.39 applied?

~~IAS 39 and [draft] IFRS X apply~~ applies in the accounting for financial instruments in the financial statements of a foreign operation and IAS 21 applies in translating the financial statements of a foreign operation for incorporation in the financial statements of the reporting entity.

To illustrate: Entity A is domiciled in Country X and its functional currency and presentation currency are the local currency of Country X (LCX). A has a foreign subsidiary (Entity B) in Country Y whose functional currency is the local currency of Country Y (LCY). B is the owner of a debt instrument, which is held for trading and therefore carried at fair value under ~~[draft] IFRS X IAS 39~~.

...

IGA23 Question E.3.4 is amended as follows:

E.3.4 IAS 39 [Draft] IFRS X and IAS 21 Interaction between ~~IAS 39 [draft] IFRS X~~ and IAS 21

~~IAS 39 [Draft] IFRS X includes requirements about the measurement of financial assets and financial liabilities and the recognition of gains and losses on remeasurement in profit or loss. IAS 21 includes rules about the reporting of foreign currency items and the recognition of exchange differences in profit or loss. In what order are IAS 21 and ~~IAS 39 [draft] IFRS X~~ applied?~~

Statement of financial position

Generally, the measurement of a financial asset or financial liability at fair value, ~~cost~~ or amortised cost is first determined in the foreign currency in which the item is denominated in accordance with ~~IAS 39~~ ~~[draft] IFRS X~~. Then, the foreign currency amount is translated into the functional currency using the closing rate or a historical rate in accordance with IAS 21 (~~IAS 39.AG83 [draft] IFRS X.B25~~). For example, if a monetary financial asset (such as a debt instrument) is carried at amortised cost under ~~IAS 39~~ ~~[draft] IFRS X~~, amortised cost is calculated in the currency of denomination of that financial asset. Then, the foreign currency amount is recognised using the closing rate in the entity's financial statements (IAS 21.23). That applies regardless of whether a monetary item is measured at cost, amortised cost or fair value in the foreign currency (IAS 21.24). A non-monetary financial asset (such as an investment in an equity instrument) is translated using the closing rate if it is carried at fair value in the foreign currency (IAS 21.23(c)) ~~and at a historical rate if it is not carried at fair value under IAS 39 because its fair value cannot be reliably measured (IAS 21.23(b) and IAS 39.46(e)).~~

~~As an exception, if the financial asset or financial liability is designated as a hedged item in a fair value hedge of the exposure to changes in foreign currency rates under IAS 39, the hedged item is remeasured for changes in foreign currency rates even if it would otherwise have been recognised using a historical rate under IAS 21 (IAS 39.89), ie the foreign currency amount is recognised using the closing rate. This exception applies to non-monetary items that are carried in terms of historical cost in the foreign currency and are hedged against exposure to foreign currency rates (IAS 21.23(b)).~~

Profit or loss

...

Any exchange difference arising on recognising a *monetary item* at a rate different from that at which it was initially recognised during the period, or recognised in previous financial statements, is recognised in profit or loss ~~or in other comprehensive income~~ in accordance with IAS 21 (~~IAS 39.AG83 [draft] IFRS X.B25~~, IAS 21.28 and IAS 21.32), unless the monetary item is designated as a cash flow hedge of a highly probable forecast transaction in foreign currency, in which case the requirements for recognition of gains and losses on cash flow hedges in IAS 39 apply (IAS 39.95). Differences arising from recognising a monetary item at

a foreign currency amount different from that at which it was previously recognised are accounted for in a similar manner, since all changes in the carrying amount relating to foreign currency movements should be treated consistently. All other changes in the statement of financial position measurement of a monetary item are recognised in profit or loss ~~or in other comprehensive income~~ in accordance with ~~IAS 39 [draft] IFRS X~~. For example, although an entity recognises gains and losses on ~~available-for-sale monetary financial assets in other comprehensive income (IAS 39.55(b))~~, the entity nevertheless recognises the changes in the carrying amount relating to changes in foreign exchange rates in profit or loss (IAS 21.23(a)).

Any changes in the carrying amount of a *non-monetary item* are recognised in profit or loss or in other comprehensive income in accordance with ~~IAS 39 (IAS 39.AG83 [draft] IFRS X.B25)~~. For example, for ~~available-for-sale financial assets~~ financial instruments classified as at fair value through other comprehensive income the entire change in the carrying amount, including the effect of changes in foreign currency rates, is recognised in other comprehensive income. ~~If the non-monetary item is designated as a cash flow hedge of an unrecognised firm commitment or a highly probable forecast transaction in foreign currency, the requirements for recognition of gains and losses on cash flow hedges in IAS 39 apply (IAS 39.95).~~

~~When some portion of the change in carrying amount is recognised in other comprehensive income and some portion is recognised in profit or loss, for example, if the amortised cost of a foreign currency bond classified as available-for-sale has increased in foreign currency (resulting in a gain in profit or loss) but its fair value has decreased in the functional currency (resulting in a loss recognised in other comprehensive income), an entity cannot offset those two components for the purposes of determining gains or losses that should be recognised in profit or loss or in other comprehensive income.~~

IGA24 The last sentence of the answer to Question F.1.4 is deleted.

IGA25 Q&A F.2.1 is amended as follows:

F.2.1 Whether a derivative can be designated as a hedged item

Does IAS 39 permit designating a derivative instrument (whether a stand-alone or separately recognised embedded derivative) as a hedged item either individually or as part of a hedged group in a fair value or cash flow hedge, for example, by designating a pay-variable, receive-fixed Forward Rate Agreement (FRA) as a cash flow hedge of a pay-fixed, receive-variable FRA?

No. Derivative instruments are always deemed held for trading and measured at fair value with gains and losses recognised in profit or loss unless they are designated and effective hedging instruments (IAS 39.9 and [\[draft\] IFRS X Appendix A](#)). As an exception, IAS 39.AG94 permits the designation of a purchased option as the hedged item in a fair value hedge.

IGA26 Q&A F.2.5 is amended as follows:

F.2.5 Cash flow hedges: 'all in one' hedge

If a derivative instrument is expected to be settled gross by delivery of the underlying asset in exchange for the payment of a fixed price, can the derivative instrument be designated as the hedging instrument in a cash flow hedge of that gross settlement assuming the other cash flow hedge accounting criteria are met?

Yes. A derivative instrument that will be settled gross can be designated as the hedging instrument in a cash flow hedge of the variability of the consideration to be paid or received in the future transaction that will occur on gross settlement of the derivative contract itself because there would be an exposure to variability in the purchase or sale price without the derivative. This applies to all fixed price contracts that are accounted for as derivatives under IAS 39 [and \[draft\] IFRS X](#).

For example, if an entity enters into a fixed price contract to sell a commodity and that contract is accounted for as a derivative under IAS 39 and ~~draft~~ IFRS X (for example, because the entity has a practice of settling such contracts net in cash or of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin), the entity may designate the fixed price contract as a cash flow hedge of the variability of the consideration to be received on the sale of the asset (a future transaction) even though the fixed price contract is the contract under which the asset will be sold. Also, if an entity enters into a forward contract to purchase a debt instrument that will be settled by delivery, but the forward contract is a derivative because its term exceeds the regular way delivery period in the marketplace, the entity may designate the forward as a cash flow hedge of the variability of the consideration to be paid to acquire the debt instrument (a future transaction), even though the derivative is the contract under which the debt instrument will be acquired.

IGA27 Q&A F.2.13 is amended as follows:

F.2.13 Fair value hedge: risk that could affect profit or loss

Is fair value hedge accounting permitted for exposure to interest rate risk in fixed rate loans that are ~~classified as loans and receivables~~ measured at amortised cost?

Yes. Under ~~draft~~ IFRS X, IAS 39, ~~loans and receivables~~ some fixed rate loans are carried at amortised cost. Banking institutions in many countries hold the bulk of their fixed rate ~~loans and receivables~~ until maturity. Thus, changes in the fair value of such fixed rate loans ~~and receivables~~ that are due to changes in market interest rates will not affect profit or loss. IAS 39.86 specifies that a fair value hedge is a hedge of the exposure to changes in fair value that is attributable to a particular risk and that can affect profit or loss. Therefore, IAS 39.86 may appear to preclude fair value hedge accounting for fixed rate ~~loans and receivables~~. However, ~~it follows from IAS 39.79 that loans and receivables can be hedged items with respect to interest rate risk since they are not designated as held-to-maturity investments.~~ The entity could sell them and the change in fair values would affect profit or loss. Thus, fair value hedge accounting is permitted for fixed rate ~~loans and receivables~~.

IGA28 The last paragraph of the answer to Question F.2.17 is amended as follows:

F.2.17 Partial term hedging

To illustrate: Entity A acquires a 10 per cent fixed rate government bond with a remaining term to maturity of ten years. Entity A classifies the bond as ~~available for sale~~ measured at amortised cost. To hedge itself against fair value exposure on the bond associated with the present value of the interest rate payments until year 5, Entity A acquires a five-year pay-fixed, receive-floating swap. The swap may be designated as hedging the fair value exposure of the interest rate payments on the government bond until year 5 and the change in value of the principal payment due at maturity to the extent affected by changes in the yield curve relating to the five years of the swap.

IGA29 Q&A F.5.1 is amended as follows:

F.5.1 Hedge accounting: non-derivative monetary asset or non-derivative monetary liability used as a hedging instrument

If an entity designates a non-derivative monetary asset as a foreign currency cash flow hedge of the repayment of the principal of a non-derivative monetary liability, would the exchange differences on the hedged item be recognised in profit or loss (IAS 21.28) and the exchange differences on the hedging instrument be recognised in other comprehensive income until the repayment of the liability (IAS 39.95)?

No. Exchange differences on the monetary asset and the monetary liability are both recognised in profit or loss in the period in which they arise (IAS 21.28). ~~IAS 39.AG83~~ [Draft IFRS X.B25] specifies that if there is a hedge relationship between a non-derivative monetary asset and a non-derivative monetary liability, changes in fair values of those financial instruments are recognised in profit or loss.

IGA30 Q&A G.1 is amended as follows:

G.1 Disclosure of changes in fair value

~~IAS 39 [Draft] IFRS X~~ requires financial assets ~~classified as available for sale (AFS) designated at fair value through other comprehensive income~~ and financial assets and financial liabilities at fair value through profit or loss to be remeasured to fair value. Unless a financial asset or a financial liability is designated as a cash flow hedging instrument, fair value changes for financial assets and financial liabilities at fair value through profit or loss are recognised in profit or loss, and fair value changes for ~~AFS assets~~ financial assets designated at fair value through other comprehensive income are recognised in other comprehensive income. What disclosures are required regarding the amounts of the fair value changes during a reporting period?

IFRS 7.20 requires items of income, expense and gains and losses to be disclosed. This disclosure requirement encompasses items of income, expense and gains and losses that arise on remeasurement to fair value. Therefore, an entity provides disclosures of fair value changes, distinguishing between changes that are recognised in profit or loss and changes that are recognised in other comprehensive income. Further breakdown is provided of changes that relate to:

- (a) ~~AFS assets, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount that was reclassified from equity to profit or loss for the period as a reclassification adjustment;~~
- (ba) financial assets or financial liabilities at fair value through profit or loss, showing separately those fair value changes on financial assets or financial liabilities (i) designated as such upon initial recognition and (ii) mandatorily classified as such as held for trading in accordance with ~~IAS 39 [draft] IFRS X~~; and
- (eb) hedging instruments.

In addition, IFRS 7.20A requires an entity to disclose the amount of gain or loss recognised in other comprehensive income for financial assets measured at fair value through other comprehensive income, including any amount transferred within equity.

IFRS 7 neither requires nor prohibits disclosure of components of the change in fair value by the way items are classified for internal purposes. For example, an entity may choose to disclose separately the change in fair value of those derivatives that in accordance with ~~IAS 39~~ [draft] IFRS X it categorises as held for trading, but the entity classifies as part of risk management activities outside the trading portfolio.

In addition, IFRS 7.8 requires disclosure of the carrying amounts of financial assets or financial liabilities at fair value through profit or loss, showing separately: (i) those designated as such upon initial recognition and (ii) those mandatorily classified as such ~~held for trading~~ in accordance with ~~IAS 39~~ [draft] IFRS X.

IFRIC 12 *Service Concession Arrangements*

IGA31 In the illustrative examples accompanying IFRIC 12, paragraphs IE7 and IE28 are amended as follows:

Example 1: The grantor gives the operator a financial asset

Financial asset

IE7 The amounts due from the grantor qualify for amortised cost measurement ~~meet the definition of a receivable in [draft] IFRS X *Financial Instruments: Classification and Measurement* IAS 39 *Financial Instruments: Recognition and Measurement*~~. The receivable is measured initially at fair value. It is subsequently measured at amortised cost, ie the amount initially recognised plus the cumulative interest on that amount calculated using the effective interest method minus repayments.

Example 3: The grantor gives the operator a financial asset and an intangible asset

Financial asset

IE28 The amount due from or at the direction of the grantor in exchange for the construction services qualifies for amortised cost measurement ~~meets the definition of a receivable in [draft] IFRS X *Financial Instruments: Classification and Measurement* IAS 39 *Financial Instruments: Recognition and Measurement*~~. The receivable is measured initially at fair value. It is subsequently measured at amortised cost, ie the amount initially recognised plus the cumulative interest on that amount minus repayments.