

FRC Roundtable on IFRS 9 *Financial Instruments*

25 February 2013



Financial Reporting Council

Agenda

- Welcome
- Classification and Measurement ED
 - Proposals and initial observations
 - Discussion
- Impairment
 - IASB's proposals
 - Discussion
- AOB



Financial Reporting Council

Welcome

Roger Marshall



IASB's ED "Classification and Measurement: Limited Amendments to IFRS 9"

Initial Observations

Seema Jamil-O'Neill

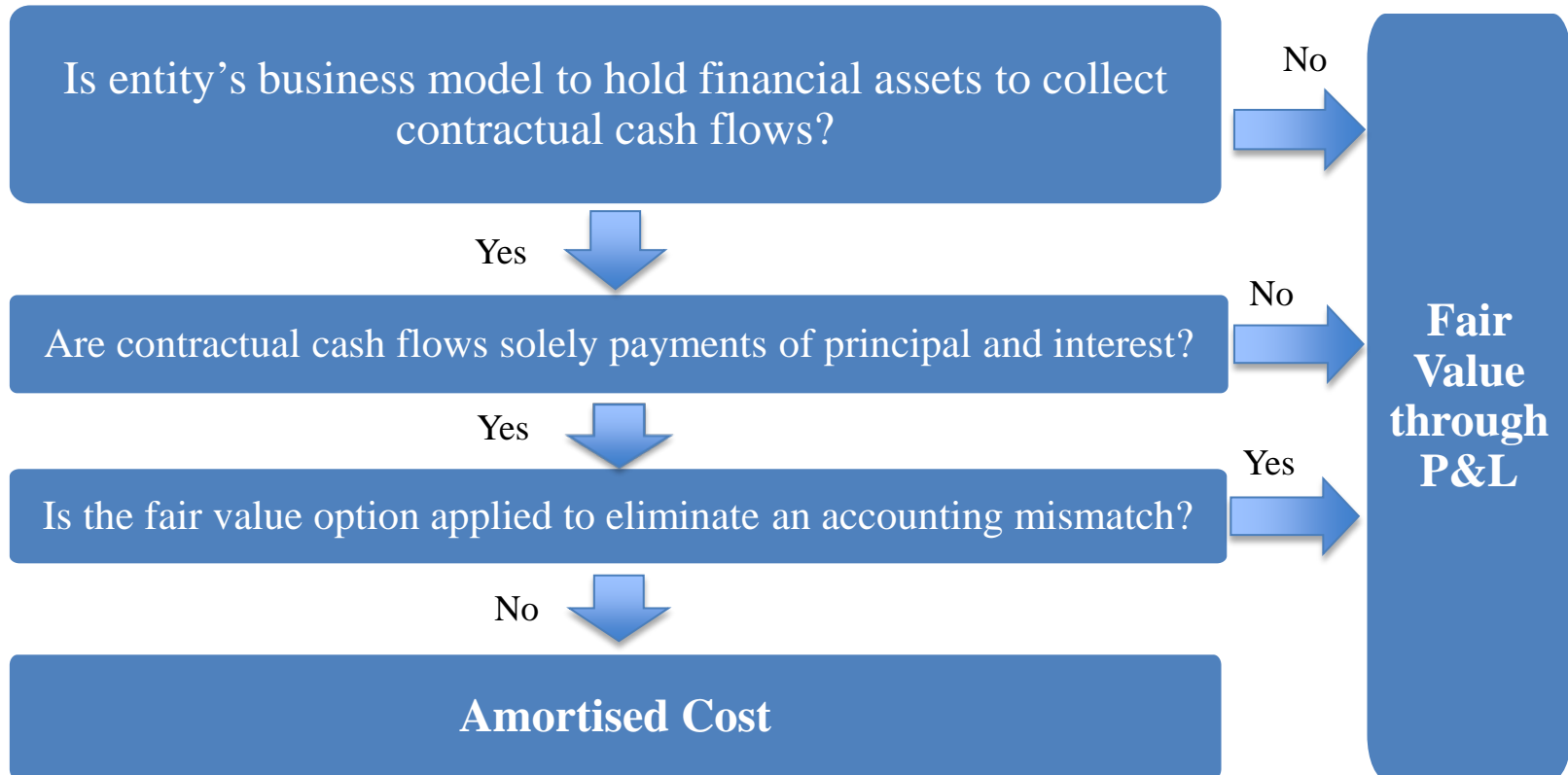


IFRS 9 - Classification and Measurement

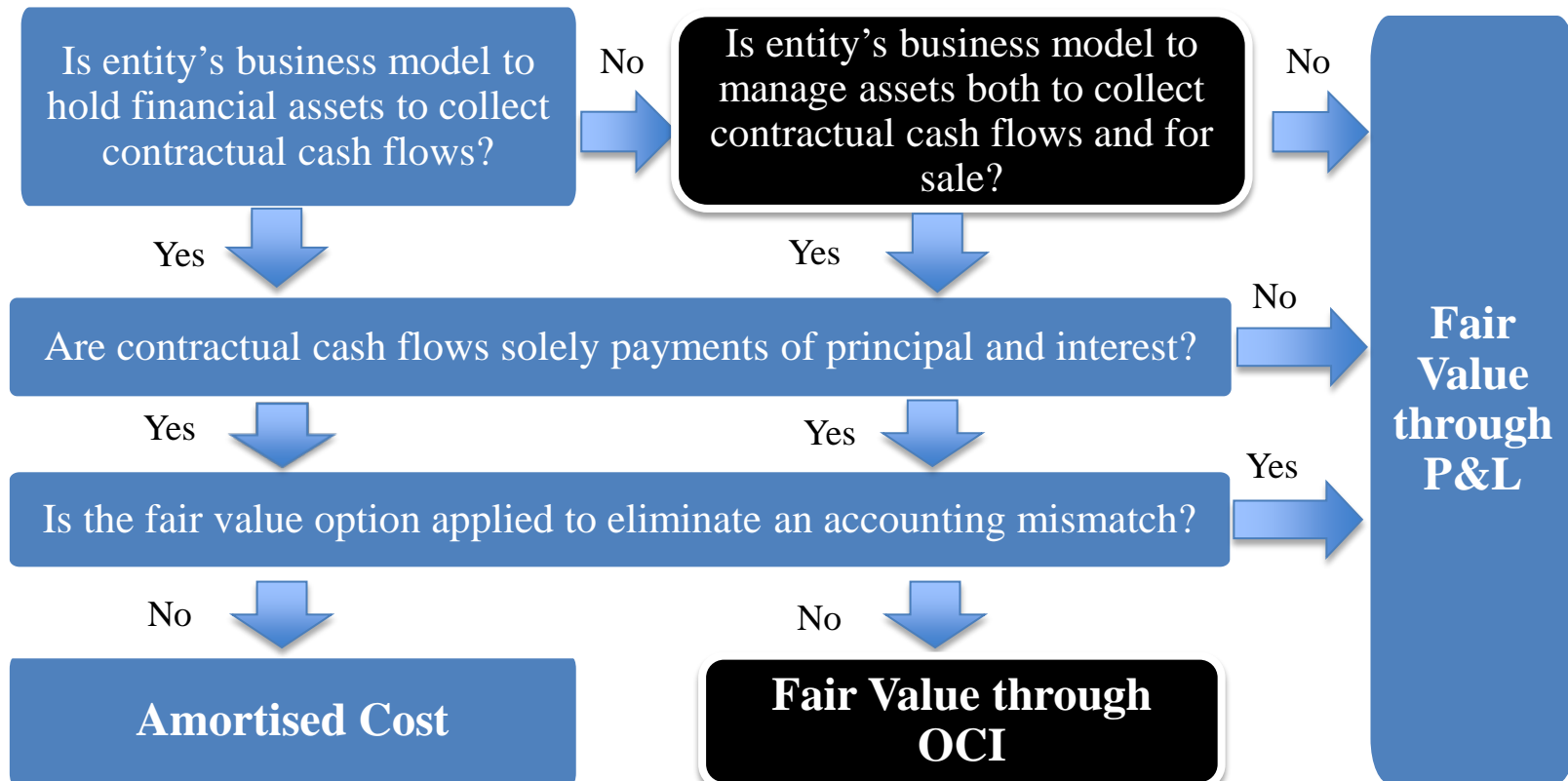
- IFRS 9 published Oct 2010
 - Included requirements for financial instruments on
 - Recognition and derecognition
 - Classification
 - Measurement
- Commitment to consider changes resulting from
 - Convergence with the FASB's requirements
 - Consequential changes arising from decisions made in the insurance project
 - Implementation issues
- ED on limited Amendments to IFRS 9 published Nov 2012



IFRS 9 (2010) - Classification and Measurement model



ED – Business Models for Financial Assets



ED – Business Models for Financial Assets

Amortised cost category

- Financial assets held solely to collect contractual cash flows

FVOCI category

- Debt investments managed in order to collect contractual cash flows and through sales
- Equity instruments not held for trading
- Treatment of gains and losses on disposal of the two is different

FV-PL category

- Residual financial assets



ED – Business Model for Financial Assets

Business model for financial assets is

- matter of fact
- Observed by way business is managed
- Performance evaluated by management



Amortised Cost Category

- Reason for and volume of sales in portfolio relevant for financial assets held at Amortised Cost
 - reason (credit quality deterioration)
 - Volume/level (infrequent / insignificant in aggregate)
- Force more “held to collect” portfolios of financial assets in FVOCI?
 - Frequent sales
 - Sales made for reasons other than deterioration in credit quality



FVOCI Category

ED states FVOCI relevant for

- Liquidity and funding portfolios (banks, insurers and corporates)
- Financial assets held to fund insurance contract liabilities (insurers)

But main function in these cases

- Generate cash flows to satisfy liabilities as they arise

More principles based definition

- “Business model based on generating cash flows to satisfy liabilities as they arise”



FV-PL Category

- ED states FV-PL category is residual
 - Trading assets
 - Derivatives
 - Assets failing the SPPI test
- Principles based definition required?
 - Business model based on generating cash flows through trading the financial asset
 - Includes derivatives through the cash flow test



ED –Contractual Cash Flows

- SPPI test – scope for too narrow an interpretation?
 - “solely payment of principal and interest” only permits perfect instruments?
 - Commercial transactions including modifications fail this test
- Modification test too narrow?
 - Compare cash flows with benchmark to test that “not more than insignificantly different”
 - Not insignificant = material?
 - What if no legal or commercial benchmark?

Effective date and Transition

- Applicable for annual periods beginning on or after 1 January 2015
 - Impairment and hedge accounting phases outstanding
 - EU adoption date uncertain
- Final Standard will remove possibility of adopting IFRS 9 in phases, except for
 - “Own credit” provisions



Views and Comments on...

Amortised cost category

- Reason for and volume of sales
- SPPI test too narrow?

FVOCI category

- Relevance for financial institutions and companies?
- Principles based business model definition?

FV-PL

- Residual category?
- Definition required?

Impact of modification in
contractual cash flow test

Effective date and transition

Other



IASB Proposals on Impairment of Financial Assets

Jana Streckenbach

