FINANCIAL SERVICES
IFRS 9 Financial Instruments

Future Developments

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Exposure Draft/2010/4 Fair Value Option for Financial Liabilities

This Exposure Draft (ED) was published in May 2010 and is part of the wider project to replace IAS 39 with IFRS 9. It is expected to become effective on 1 January 2013, with early adoption permitted.

The irrevocable designation of a financial liability as fair value option continues to be available when:

- It eliminates or significantly reduces accounting mismatches;
- When a group of financial assets and liabilities is managed and its performance is monitored on a fair value basis; or
- When a host contract contains embedded derivatives which may have to be separated out if the entire contract is not fair value accounted for.

Financial liabilities designated under the fair value option continues to be measured at fair value, however, there is a proposed change to the way the change in fair value is accounted for, and the accounting treatment depends on whether the change in fair value relates to the entity's own credit, or not, as follows:

- Most of the change in fair value for liabilities designated under the fair value option is recognised in profit and loss, however;
- It has been proposed that the change in fair value attributable to the entity's own non-derivative financial liabilities, arising for example if the entity's creditworthiness deteriorates, is presented in Other Comprehensive Income.

Furthermore it is proposed that the presentation of fair value changes is done in two steps:

1. The full fair value change is recognised in profit and loss; and
2. The amount of fair value change attributable to the entity's own credit risk is reversed out of profit and loss and presented in Other Comprehensive Income.

Future Developments

The following areas are yet to be covered in IFRS 9:

- Amortised cost and impairment ED/ 2009/12.
- Derecognition - disclosures.
- Hedge accounting.

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The Financial Accounting Standards Board (FASB) has recently released an Exposure Draft: Accounting for Financial Instruments and Revision to the Accounting for Derivatives Instruments and Hedging Activities. The proposed accounting for financial assets and liabilities differ significantly from that of IFRS 9 and ED/2009/12 Amortised Cost and impairment. The main differences are:

- The FASB ED does not use a business model test as a basis for differentiating between financial instruments to be measured at amortised cost and those to be valued at fair value;
- Neither does it allow reclassification between the different methods of measurement when there is a change in the business objective;
- The FASB ED proposes presentation of both amortised cost and fair value;
- Furthermore, it proposes that changes in fair value for all financial liabilities are recognised in profit and loss, including the change in fair value related to own credit; and
- Recognition of impairment would be based on current economic conditions, not recognising expected future impairments.

Specific advice should be obtained before taking action, or refraining from taking action, on any of the subjects covered

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