Response to the IASB Exposure Draft
Classification and Measurement: Limited Amendments to IFRS 9
[Proposed Amendments to IFRS 9 (2010)]

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INTRODUCTION

ICAS welcomes the opportunity to comment on the IASB's Exposure Draft: Classification and Measurement: Limited Amendments to IFRS 9 [Proposed Amendments to IFRS 9 (2010)].

The ICAS Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

The ICAS Accounting Standards Committee has considered the Exposure Draft and I am pleased to forward their comments.

Any enquiries should be addressed to Ann Buttery, Assistant Director, Technical Policy and Secretary to the Accounting Standards Committee.

RESPONSE TO THE EXPOSURE DRAFT

KEY COMMENTS

Introduction of a third measurement category

We are supportive of the IASB's project to simplify the accounting for financial instruments. However, we believe this objective was largely achieved in the original published version of IFRS 9 which required financial instruments to be classified into one of only two measurement categories - amortised cost or fair value through profit or loss. We therefore believe that the introduction of a third measurement category introduces additional complexity and is not necessary.

However, we note that one of the key drivers for the IASB proposing limited amendments to the original IFRS 9 was to achieve greater convergence with US GAAP, where a fair value through OCI measurement category is being proposed. Consequently, although conceptually we favour the dual measurement approach, given the global nature of the financial services industry for which these changes will be particularly relevant, we believe that convergence with US GAAP is an important principle and are therefore supportive of the IASB's approach to achieve this objective.

Further, we believe the principles underpinning the business model assessment, that determines which measurement category is applicable, are clearly explained and the application guidance has clarified the IASB's thinking which we believe will aid consistency of practice and comparability.

Recycling

We note that unrealised gains and losses on financial assets classified as fair value through OCI would require to be recycled to the income statement when the asset is sold. We are concerned that the IASB is introducing situations where recycling is required without further debate as to the conceptual merits of recycling and are concerned that permitting recycling in IFRS 9 could set a precedent for its wider applicability in future standards.

Early Adoption of 'Own Credit' Provisions

Whilst we recognise that there is a problem with regard to the 'own credit' area, we do not believe that it is appropriate to permit entities to early adopt parts of a new accounting standard. Given the complex nature of accounting for financial instruments, we believe it is necessary for adoption of the complete standard rather than on a piecemeal basis.

RESPONSE TO EXPOSURE DRAFT QUESTIONS

Question 1

Do you agree that a financial asset with a modified economic relationship between principal and consideration for the time value of money and the credit risk could be considered, for the purposes of IFRS 9, to contain cash flows that are solely payments of principal and interest? Do you agree that this should be the case if, and only if, the contractual cash flows could not be more than insignificantly different from the benchmark cash flows? If not, why and what would you propose instead?

Yes, we agree with this principles-based, rather than rules-based, approach.

Question 2

Do you believe that this Exposure Draft proposes sufficient, operational application guidance on assessing a modified economic relationship? If not, why? What additional guidance would you propose and why?

Yes, we believe this Exposure Draft proposes sufficient guidance for our jurisdiction.

Question 3

Do you believe that this proposed amendment to IFRS 9 will achieve the IASB's objective of clarifying the application of the contractual cash flow characteristics assessment to financial assets that contain interest rate mismatch features? Will it result in more appropriate identification of financial assets with contractual cash flows that should be considered solely payments of principal and interest? If not, why and what would you propose instead?

Yes, we believe the proposed amendments to IFRS 9 do help clarify the application of the contractual cash flow characteristics assessment. The guidance is clear, it sets out the principles, and entities will be able to apply judgement to those principles in order to more appropriately identify financial assets with contractual cash flows that should be considered solely payments of principal and interest.

Question 4

Do you agree that financial assets that are held within the business model in which assets are managed both in order to collect contractual cash flows and for sale should be required to be measured at fair value through OCI (subject to the contractual cash flow characteristics assessment) such that:

a) Interest revenue, credit impairment and any gain or loss on derecognition are recognised in profit or loss in the same manner as for financial assets measured at amortised cost; and
b) All other gains and losses are recognised in OCI?

If not, why? What do you propose instead and why?

We have indicated previously (in our response dated 23 September 2009 to IASB Exposure Draft: Financial Instruments: Classification and Measurement) that we are in favour of simplifying the classification and measurement of financial instruments, and reducing the associated level of complexity. However, we also noted in the aforementioned response that we support the IASB's move to seek convergence with developments in US GAAP.

As such, although conceptually we favour the two category approach, and believe the third category adds an additional level of complexity, we agree that, in order to align with the US FASB model, a third category of financial asset should be introduced for assets managed both in order to collect contractual cash flows and for sale. We recognise that US GAAP convergence is important, particularly in relation to the financial services sector, and therefore a third category is necessary in practical terms.

We do however have concerns that the IASB is further extending the use of “recycling” and we are concerned that this could set a precedent for future standard setting before a wider conceptual debate takes place on this important accounting concept.

Question 5

Do you believe that the Exposure Draft proposes sufficient, operational application guidance on how to distinguish between the three business models, including determining whether the business model is to manage assets both to collect contractual cash flows and to sell? Do you agree with the guidance provided to describe those business models? If not, why? What additional guidance would you propose and why?

With three business models, it is imperative that the operational application guidance be clear and consistent. In general, we believe the application guidance proposed in the Exposure Draft is clearer than the previous dual guidance. This will improve consistency for both preparers and auditors.

Notwithstanding, we would ask the IASB to clarify Example 1 on page 22. The Analysis section provides clarity on the expected treatment of the Example scenario, but, in the second paragraph goes on to set out a 2nd scenario without providing a clear conclusion. We would prefer this second scenario to be laid out in the first column with a separate analysis and clear conclusion.

Question 6

Do you agree that the existing fair value option in IFRS 9 should be extended to financial assets that would otherwise be mandatorily measured at fair value through OCI? If not, why and what would you propose instead?

Yes, we agree that the existing fair value option in IFRS 9 should be extended to financial assets that would otherwise be mandatorily measured at fair value through OCI.

Question 7

Do you agree that an entity that chooses to early apply IFRS 9 after the completed version of IFRS 9 is issued should be required to apply the completed version of IFRS 9 (i.e. including all chapters)? If not, why? Do you believe that the proposed six month period between the issuance of the completed version of IFRS 9 and when the prohibition on newly applying previous versions of IFRS 9 becomes effective is sufficient? If not, what would be an appropriate period and why?

Yes, we agree that an entity that chooses to early apply IFRS 9 after the completed version of IFRS 9 is issued should be required to apply the completed version of IFRS 9 (i.e. including all chapters).

Question 8

Do you agree that entities should be permitted to choose to early apply only the ‘own credit’ provisions in IFRS 9 once the completed version of IFRS 9 is issued? If not, why and what do you propose instead?

Whilst we recognise that there is a problem with regard to the ‘own credit’ area, we believe that provisions should not be adopted on a piecemeal basis and therefore early adoption of only the ‘own credit’ provisions in IFRS 9, once the completed version of IFRS 9 is issued, should not be permitted.

In the meantime, entities are free to disclose the impact of ‘own credit’ on their earnings.

Question 9

Do you believe there are considerations unique to first-time adopters that the IASB should consider for the transition to IFRS 9? If so, what are those considerations?

We have no comments regarding first-time adopters.