

International Accounting Standards Board (IASB) issued – Amendment to IFRIC

The International Financial Reporting Interpretations Committee (IFRIC) issued

1. An interpretation that provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. These transactions are often referred to as debt for equity swaps
2. A minor amendment to its requirements on accounting for pension plans
3. New International Financial Reporting Standard (IFRS) on the classification and measurement of financial assets

Extinguishment of a financial liability by the issue of equity instruments

IFRIC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments clarifies the requirements of International Financial Reporting Standards (IFRSs) when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. IFRIC 19 clarifies that:

1. the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability.
2. the equity instruments issued are measured at their fair value. If their fair value cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished.
3. the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit or loss for the period.

The interpretation is effective for annual periods beginning on or after 1 July 2010 with earlier application permitted.

Amendment to pensions accounting

The amendment is to IFRIC 14, which is itself an interpretation of IAS 19 Employee Benefits . The amendment applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset.

The amendment, Prepayments of a Minimum Funding Requirement , has an effective date for mandatory adoption of 1 January 2011, with early adoption permitted for 2009 year-end financial statements.

New International Financial Reporting Standard (IFRS) on the classification and measurement of financial assets

The new standard enhances the ability of investors and other users of financial information to understand the accounting of financial assets and reduces complexity - an objective endorsed by the Group of 20 leaders (G20) and other stakeholders internationally. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. Thus IFRS 9 improves comparability and makes financial statements easier to understand for investors and other users.

The IASB has received broad support for its approach. This became evident during the unprecedented global scale of consultation and outreach activity it undertook in order to refine proposals contained within the exposure draft published in July 2009. Round table discussions were held in Asia, Europe and the United States. Interactive webcasts, each attracting thousands of registered participants, have been held, often on a weekly basis. In addition, more than a hundred meetings have been held with interested parties around the world during the past four months. The views expressed to the IASB during its consultations resulted in the proposals being modified to address concerns raised and to improve the standard. For example, IFRS 9 requires the business model of an entity to be assessed first to avoid the need to consider the contractual cash flow characteristics of every individual asset. It requires reclassification of assets if the business model of an entity changes. The IASB changed the accounting that was proposed for structured credit-linked investments and for purchases of distressed debt. The IASB also addressed concerns expressed about the problems created by the mismatch in timings between the mandatory effective date of IFRS 9 and the likely effective date of a new standard on insurance contracts.

Furthermore, in response to suggestions made by some respondents, the IASB decided not to finalise requirements for financial liabilities in IFRS 9. The IASB has begun the process of giving further

consideration to the classification and measurement of financial liabilities and it expects to issue final requirements during 2010.

The effective date for mandatory adoption of IFRS 9 Financial Instruments is 1 January 2013. Consistent with requests by the G20 leaders and others, early adoption is permitted for 2009 year-end financial statements.

Commenting on IFRS 9, Sir David Tweedie, Chairman of the IASB, said:

"We have delivered on our commitment to the G20 and stakeholders internationally to provide an improved financial instrument standard for the classification and measurement of financial assets for use in 2009. Benefiting from unprecedented levels of consultation with stakeholders around the world, the IASB has made significant changes in its initial proposals to improve the standard, provide enhanced transparency and respond to stakeholder concerns."

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