

# ED Investments in debt instruments - proposed amendments to IFRS 7

## Background

The International Accounting Standards Board (The Board) has just published an Exposure Draft (ED) to propose amendments to IFRS 7 *Financial Instruments: Disclosures* to require further disclosures for investments in debt instruments. This ED is part of the IASB's commitment to enhance the disclosure requirements for financial instruments in the current market climate. The ED proposes the incorporation of the additional disclosures suggested at the Board's roundtable meetings with the US Financial Accounting Standards Board (the FASB) in November and December 2008 held in response to the global financial crisis.

Preparers requested the IASB to amend the requirements for the measurement of impairment of available for sale (AFS) debt securities to be consistent with those for amortised cost instruments. That is, once an entity has objective evidence of impairment, only incurred losses calculated as the difference between the asset's amortised cost and the present value of expected future cash flows discounted at the original effective interest rate would be recognised as impairment in profit or loss. Any other changes in fair value would be reflected in equity. However, users were not enthusiastic about the change requested by preparers.

By way of a compromise, the IASB has proposed additional disclosures, as follows:

## Summary of proposed additional disclosures

The proposal requires the following disclosures for all investments in debt instruments other than those classified as at fair value through profit or loss (that is, those classified as held to maturity, available for sale or as loans and receivables):

- (a) Pre-tax profit or loss as though the debt instruments had been:
  - (i) classified as at fair value through profit or loss; and
  - (ii) accounted for at amortised cost
- (b) Tabular disclosure of:
  - (i) the carrying amount in the statement of financial position;
  - (ii) the fair value; and
  - (iii) the amortised cost

The illustrative example proposed to be included as implementation guidance gives the disclosures required by (b) by category (i.e., separate disclosure for investments in debt instruments classified as held to maturity, available for sale and loans and receivables). However, the text of the standard does not require it to be disclosed at this level.

From this information, a user is able to derive the split between the incurred loss on impaired AFS debt securities and the rest of the fair value movement taken through profit or loss. However, it would have been simpler to require disclosure of the impairment loss that would have been taken had the amortised cost impairment rules been applied.

The ED proposes that the amendments are applicable for annual periods ending on or after 15 December 2008. Comparative information relating to the periods before the date of initial adoption is not required.

The FASB also recently issued a proposed staff position requiring similar disclosures. In addition, the SEC has requested the FASB to go further and consider the development of a model that would require recognising impairments through income related only to credit losses (calculated on an incurred loss basis consistent with impairments on loans), while the remaining decline in fair value of an investment (the portion that is not related to incurred losses) would be recognised in other comprehensive income, consistent with the requests of preparers at the roundtables. In the December IASB Update, the IASB reported that it had tentatively decided to work with the FASB on this and two other issues raised at the roundtable meetings:

- ▶ To consider whether to permit reversal of impairment on AFS equity instruments and
- ▶ The reclassification of financial instruments designated at fair value through profit or loss using the fair value option.

We hope that the IASB and FASB will work together on this matter, which should also result in further changes to IFRS in line with any amendments made by the FASB in response to the SEC's request.

## Business impact

The proposed new disclosure requirements will require entities to obtain and maintain both fair value and amortised cost information for all debt instruments other than those classified as at fair value through profit or loss. As the proposal requires adoption for 2008 calendar year-ends, this will result in entities needing to obtain additional information for their 2008 financial statements in a very short period of time.

The information about profit or loss on a fair value basis will not be difficult to derive, since entities are already required to disclose the fair value of all instruments not recorded on a fair value basis (although adjustments will need to be made for the effects of hedge accounting and impairment). However, determining the profit or loss impact of AFS debt instruments, as if they were carried on an amortised cost basis could be very challenging in the proposed time frame.

Furthermore, the category 'Investment in a debt instrument' is not defined and so it is not clear how broad this category is. For example, should it include trade receivables? If so, this will impact a significant number of entities.

Comments on the Exposure Draft are due by 15 January 2009.

Ernst & Young

Assurance | Tax | Transactions | Advisory

### About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 135,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit [www.ey.com](http://www.ey.com)

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

### About Ernst & Young's International Financial Reporting Standards Group

The move to International Financial Reporting Standards (IFRS) is the single most important initiative in the financial reporting world, the impact of which stretches far beyond accounting to affect every key decision you make, not just how you report it. We have developed the global resources - people and knowledge - to support our client teams. And we work to give you the benefit of our broad sector experience, our deep subject matter knowledge and the latest insights from our work worldwide. It's how Ernst & Young makes a difference.

[www.ey.com/ifrs](http://www.ey.com/ifrs)

© 2008 EYGM Limited.  
All Rights Reserved.

EYG no. AU0210

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.