PRESS RELEASE

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IASB completes reform of financial instruments accounting

The International Accounting Standards Board (IASB), responsible for International Financial Reporting Standards (IFRS) required for use by more than 100 countries, today completed the final element of its comprehensive response to the financial crisis by issuing IFRS 9 *Financial Instruments.* The package of improvements introduced by IFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The new Standard will come into effect on 1 January 2018 with early application permitted.

Classification and Measurement

Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are generally considered to be overly complex and difficult to apply. The new model also results in a single impairment model being applied to all financial instruments, thereby removing a source of complexity associated with previous accounting requirements.

Impairment

During the financial crisis, the delayed recognition of credit losses on loans (and other financial instruments) was identified as a weakness in existing accounting standards. As part of IFRS 9, the IASB has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. The IASB has already announced its intention to create a transition resource group to support stakeholders in the transition to the new impairment requirements.

Hedge accounting

IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

Own credit

IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss. Early application of this improvement to financial reporting, prior to any other changes in the accounting for financial instruments, is permitted by IFRS 9.

Hans Hoogervorst, Chairman of the IASB commented:

> *The reforms introduced by IFRS 9 are much needed improvements to the reporting of financial instruments and are consistent with requests from the G20, the Financial Stability Board and others for a forward-looking approach to loan-loss provisioning.*
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> *The new Standard will enhance investor confidence in banks' balance sheets and the financial system as a whole.*

A Project Summary providing an overview of the new Standard is available to download from here.

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Press enquiries:

Mark Byatt, Director of Communications and External Affairs, IFRS Foundation
Telephone: +44 (0)20 7246 6472
Email: mbyatt@ifrs.org

About the International Accounting Standards Board

The IASB was established in 2001 and is the standard-setting body of the IFRS Foundation, a public interest not-for-profit organisation. The IASB is committed to developing a single set of high quality, global accounting standards that provide high quality, transparent and comparable information in general purpose financial statements.

In pursuit of this objective the IASB conducts extensive public consultations and seeks the co-operation of international and national bodies around the world. The IASB has 14 full-time members drawn from a variety of countries and professional backgrounds. Board members are appointed by, and accountable to, the Trustees of the IFRS Foundation. In their work the Trustees are accountable to a Monitoring Board of public authorities.