

IFRS News supplement

Summary of IAS 32 and IAS 39 changes for existing preparers of IFRS financial statements

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This is the second in a series of IFRS News supplements assessing the impact of recent changes in IFRS that are relevant to existing preparers. This edition highlights the key changes made to IAS 32 and IAS 39.

Standard	Significant scope and definition changes	Significant measurement and recognition changes	Significant presentation and disclosure changes
<p>IAS 32 Financial Instruments: Disclosure and Presentation</p>	<ul style="list-style-type: none"> • Amendments made to scope of IAS 32 to conform with scope of IAS 39, where appropriate. • Definition of financial asset and liability amended to include contracts settled in entity's own instruments (IAS 32.11). • Incorporates and supersedes SIC-5, SIC-16 and SIC 17 (IAS 32.IN10-IN11, IN14-15). 	<ul style="list-style-type: none"> • Recognition of elements of compound financial instrument requires separation of asset and liability amounts, with any residual being equity (IAS 32.28). 	<ul style="list-style-type: none"> • Criteria clarified for financial instruments to be deemed as equity (IAS 32.16). • Obligation to repurchase own shares creates a financial liability (IAS 32.23). • Derivative and non-derivative contracts indexed to or settled in entity's own instruments create a liability (IAS 32.21). • Derivative financial instrument giving a genuine choice as to its settlement can be an asset, liability or equity (IAS 32.26). • Puttable instruments are classified as financial liabilities (IAS 32.18). • Assets measured at cost where fair value cannot be determined reliably are exempted from disclosure of fair value (IAS 32.90). • Disclosures required for: <ul style="list-style-type: none"> (a) valuation techniques; (b) retained portion of partially derecognised financial assets; (c) carrying amounts for financial assets and liabilities held for trading and designated at fair value through profit and loss; (d) amount of non-interest-rate-related changes to value of liability designated at fair value through profit and loss; (e) details of compound financial instruments with multiple embedded derivative features; and (f) details of any defaults or breaches in loan agreements. • Disclosure of amounts carried in excess of fair value not required (IAS32.1N18). • Transfer of IAS 39 disclosure requirements (IAS 32.IN19) (IAS 39.IN25).

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IAS 39 Financial Instruments: Recognition and Measurement	<ul style="list-style-type: none"> • Clarification that financial guarantee contracts that are not insurance contracts under IFRS 4 are within scope of IAS 32 and IAS 39 (IAS 39.3). • Contracts for contingent consideration in a business combination included in scope of IFRS 3. • Loan commitments not classified as fair value through profit and loss and that cannot be settled net are scoped into IAS 37 (IAS 39.4). • Clarification that a written option capable of being settled in cash or another financial instrument is within the scope (IAS 39.7). • Revised definition for loans and receivables allows classification of purchased, unquoted loans (IAS 39.9). 	<ul style="list-style-type: none"> • Evaluation of transfer of risks and rewards is prime determinant for derecognition (IAS 39.17). • New concept of ‘transfer’ of financial asset, which can result in derecognition (IAS 39.18). • Guidance on concepts of transfer, risks and rewards and control (IAS 39.16-37, AG36-AG56). • Partial derecognition of financial assets is limited (IAS 39.16). • Introduction of the ‘fair value through profit and loss’ category. Transfers into or out of this category prohibited (IAS 39.9, 50). • Gains and losses on available-for-sale assets recognised in equity. Inclusion in profit and loss prohibited (IAS 39.55(b)). • Guidance provided on use of valuation techniques (IAS 39.48-49, AG69-AG82). • Clarification of measurement of fair value for liability with demand feature (IAS 39.49). • Guidance provided on impairment of financial assets (IAS 39.58-70). • Reversal of impairment losses on available-for-sale equity instruments through profit and loss prohibited (IAS 39.69). • Hedges of firm commitments treated as fair value hedges (IAS 39.86). • Hedge of foreign currency risk of firm commitments can be cash flow or fair value hedge (IAS 39.87). • Clarification of treatment of gains or losses on hedged forecast transactions (IAS 39.97-98). • Increased ability to use fair value hedge accounting for a portfolio hedge of interest rate risk (IAS 39.89A). • Guidance that foreign currency embedded derivatives do not need to be separated if they are in a currency that is commonly used in contracts to buy or sell items in the economic environment in which the transaction takes place (IAS 39.AG3 (d)(iii)). • Clarification that subsequent gain/loss recognised only for changes to observable factors used in assessing value for initial recognition (IAS 39A.BC222). • Prospective application of ‘day 1’ gain and loss recognition requirements permitted (IAS 39A.BC222). 	<ul style="list-style-type: none"> • IAS 39 disclosure requirements moved to IAS 32 (IAS 32.IN19) (IAS 39.IN25).