

# IFRS Briefing Sheet

## Exposure Draft *Investments in Debt Instruments – Proposed amendments to IFRS 7*

January 2009, **Issue 122**

This IFRS Briefing Sheet summarises the International Accounting Standards Board's (IASB or Board) Exposure Draft (ED) *Investments in Debt Instruments – Proposed amendments to IFRS 7*, which was published on 23 December 2008. Comments are due by 15 January 2009.

Proposed guidance would require entities with investments in debt instruments classified other than as at fair value through profit or loss (FVTPL) to disclose the pre-tax profit or loss that would have been reported had such investments been accounted for using different accounting bases.

### Background

IAS 39 *Financial Instruments: Recognition and Measurement* requires impairment of available-for-sale (AFS) debt instruments to be measured differently from impairment of debt instruments classified as loans and receivables and held-to-maturity (HTM). AFS debt instruments are carried at fair value with any impairment losses measured as the difference

between amortised cost and fair value. In contrast, loans and receivables and HTM investments are carried at amortised cost with any impairment losses measured as the difference between amortised cost and the present value of estimated future cash flows, net of incurred credit losses but without consideration of future credit losses, calculated using the original effective interest rate or, for variable interest rate instruments, the current effective interest rate (the "incurred loss model").

Comments were raised at the public round table meetings held by the IASB and the U.S. Financial Accounting Standards Board (FASB) in October and November 2008 (see *IFRS Briefing Sheet – Issue 116: IASB and FASB 2008 round table meetings on the global financial crisis*) about disclosures relating to investments in debt instruments. In light of these comments and other suggestions received from constituents, the Board has decided to propose additional disclosure requirements that would allow users to better compare investments in debt instruments other than those classified as at FVTPL for the purpose of improving financial reporting.

The Board notes that the FASB is making similar proposals for disclosures about financial assets.

**KPMG's update on International Financial Reporting Standards (IFRSs)**

**Additional Disclosures for all Investments in Debt Instruments other than at FVTPL**

The ED proposes that an entity disclose for all investments in debt instruments, other than those classified as at FVTPL, the pre-tax profit or loss as though the instruments had been classified as at FVTPL and as though the instruments had been accounted for at amortised cost.

In addition, the ED proposes that an entity disclose for all investments in debt instruments, other than those classified as at FVTPL, the carrying amount in the statement of financial position, the fair value and the amortised cost.

The ED would require all these disclosures to be presented in tabular format (see Figure 1).

**Effective Date**

The ED proposes that entities apply these amendments for annual periods ending on or after 15 December 2008. However, comparative information for periods prior to the date of initial adoption would not be required.

The Board acknowledges that the effective date of new IFRSs and amendments to IFRSs is usually 6-18 months from the date of issue; however, it believes there is an urgent need for the proposed additional disclosures for investments in debt instruments that demands earlier application.

**Response to the IASB**

The IASB has invited comments on the ED by 15 January 2009.

Figure 1: Example Disclosures

<b>Investments in debt instruments (other than those classified as at fair value through profit or loss)</b>	
	20X1 Pre-tax profit or loss in each scenario
	CU million
If all investments in debt instruments had been classified as financial assets at fair value through profit or loss	X
If all investments in debt instruments (other than those classified as at fair value through profit or loss) had been accounted for at amortised cost	X

<b>Investments in debt instruments (other than those classified as at fair value through profit or loss)</b>			
	31 December 20X1		
Investments in debt instruments classified as:	Carrying amount in the statement of financial position	Fair value	Amortised cost
	CU million	CU million	CU million
Loans and receivables	X	X	X
Held-to-maturity investments	X	X	X
Available-for-sale financial assets	X	X	X
Total	X	X	X

Source: Exposure Draft

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.

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