IFRS 9: Early Adoption of IFRSs with Prospective Application

Extract, IFRS Discussion Group Report on Meeting – December 2, 2013

In June 2013, the Group discussed, on a conceptual basis, the potential implications of a Canadian entity wishing to adopt the hedge accounting provisions of IFRS 9 *Financial Instruments* in a period prior to when the material is included in Part I of the CPA Canada Handbook – Accounting. This issue is being revisited now that the final transition provisions are known following the issuance of the revised version of IFRS 9 in November 2013. Further, the revised version of IFRS 9 will not be included in Part I of the Handbook in 2013 because the AcSB's due process will not be complete.

The transition guidance for the November 2013 version of IFRS 9 requires that the hedge accounting provisions be applied prospectively (subject to two small exceptions outlined in paragraph 7.2.21 of IFRS 9 (2013)). The transition guidance requires an entity to adopt all of the provisions of IFRS 9 when the revised hedge accounting chapter is adopted. Therefore, an entity must also apply the revised classification and measurement criteria for financial assets and financial liabilities in addition to the hedging criteria.

Although the hedge accounting chapter is to be applied prospectively, the classification and measurement requirements must be applied retrospectively subject to certain exceptions outlined in the transition requirements. In many of those exceptions, the requirements of IFRS 9 are applied at the date of initial application, which is the beginning of the first reporting period in which the entity first applies the requirements of the standard.

It is important to note that the mandatory adoption date for IFRS 9 is sometime after 2015 and federally regulated financial institutions are not eligible to adopt IFRS 9 early. Also, Section 3.2(1)(a) of National Instrument 52-107, *Acceptable Accounting Principles and Auditing Standards*, requires that financial statements, other than acquisition statements, be prepared in accordance with Canadian GAAP applicable to a publicly accountable enterprise. In other words, reporting issuers need to file financial statements that comply with Part I of the Handbook.

The Group considered the potential implications arising from early adoption of the hedging chapter of IFRS 9. Specifically, what are the potential implications for a reporting issuer that wishes to early adopt IFRS 9 as amended in November 2013 before the standard is included in Part I of the Handbook? What are the potential implications for an entity that is not a reporting issuer?

The Group's Discussion

Group members noted that this issue arises in very limited circumstances and for a limited time.

Group members observed that if a reporting issuer wishes to adopt IFRS 9 before the standard is included in Part I of the Handbook, the issuer would need to apply to the securities regulators for exemptive relief from the requirement in National Instrument 52-107 to file financial statements that comply with Part I of the Handbook. Other entities that are not reporting issuers would need to examine covenants and other arrangements to understand whether it is possible to adopt early (i.e., if only required to comply with IFRSs as issued by the IASB and not Canadian GAAP (Part I of the Handbook)).

The AcSB Chair, Linda Mezon, noted that the process for incorporating IFRS 9 into Part I of the Handbook is underway but based on the time to translate the standard it will not be in Part I of the Handbook prior to December 31, 2013. However, the AcSB is moving as quickly as possible and is aware that some entities wish to adopt the standard in the first quarter of 2014.

Subsequent to the Group's meeting, the AcSB's December 23, 2013 Decision Summary states that: "… the guidance on hedge accounting and other amendments are expected to be issued and become part of Canadian GAAP in the first quarter of 2014."

The Group did not recommend any further action be taken regarding this issue.