

Straight away

IFRS bulletin from PwC

Modification of financial liabilities – IFRS 9 changes accounting

14 March 2017

At a glance

In February 2017, the IASB ('the Board') discussed the accounting for modifications of financial liabilities under IFRS 9 *Financial instruments*. The Board confirmed the tentative view of the Interpretations Committee that when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. (IFRS 9, paragraph B5.4.6)

Impact

This will impact all preparers, particularly those applying a different policy for recognising gains and losses today. Under IAS 39 *Financial instruments: Recognition and measurement*, many preparers did not recognise a gain or loss at the date of modification of a financial liability. Instead the difference between the original and modified cash flows was amortised over the remaining term of the modified liability by re-calculating the effective interest rate. This will need to change on transition to IFRS 9 because the accounting will change.

While it is not expected that entities are required to change their existing accounting policy under IAS 39, the impact on transition to IFRS 9 should be considered. IFRS 9 is required to be applied retrospectively; therefore, modification gains and losses arising from financial liabilities that are still recognised at the date of initial application (eg. 1 January 2018 for calendar year end companies) would need to be calculated and adjusted through opening retained earnings on transition.

Where can entities get more details?

The Board recommended that the Interpretations Committee proceed with an educative agenda decision. The Board will also consider other ways to highlight this matter, such as within a webcast.

For more information, refer to the IASB podcast:

<http://www.ifrs.org/Meetings/Pages/IASB-Meeting-February-2017.aspx>

For more information on this publication please contact:

Regina Fikkers
Partner
02 8266 8350
regina.fikkers@pwc.com



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