

Scope of paragraph AG5 (IAS 39 *Financial Instruments: Recognition and Measurement*)—November 2012

The Interpretations Committee received a request for guidance on several accounting issues that resulted from the restructuring of Greek government bonds (GGBs) in 2012. At its September 2012 meeting, the Interpretations Committee concluded that the GGBs surrendered in March 2012 should be derecognised, which means the new GGBs received as part of the debt restructuring are recognised as new assets. At the July 2012 and November 2012 meetings, the Interpretations Committee addressed the particular request to consider whether paragraph AG5 of IAS 39 [now replaced by paragraph B5.4.7 of IFRS 9] could apply when determining the effective interest rate on initial recognition of those new GGBs. Applying paragraph AG5 of IAS 39 means that the effective interest rate would be determined at initial recognition using estimated cash flows that take into account incurred credit losses.

The Interpretations Committee noted that paragraph AG5 of IAS 39 applies to acquired assets, which includes both purchased and originated assets.

The Interpretations Committee also noted that even though an origination of a debt instrument with an incurred loss is rather unusual, there are situations in which such transactions occur. For example, within the context of significant financial difficulty of an obligor, transactions can arise that involve originations of debt instruments that are outside the normal underwriting process but are instead forced upon already existing lenders by a restructuring process. This could include situations in which modifications of debt instruments result in derecognition of the original financial asset and the recognition of a new financial asset under IFRSs. In circumstances such as these, new financial assets could be recognised that have incurred losses on initial recognition. The Interpretations Committee noted that whether an incurred loss exists on initial recognition of an asset is a factual matter and that the assessment requires judgement. The Interpretations Committee also noted that the circumstances leading to the recognition of an asset with an incurred loss on initial recognition need not be limited to those in which debt instruments are effectively forced upon existing lenders, but could also arise in other transactions.

The Interpretations Committee considered that in the light of its analysis of the existing requirements of IAS 39 an interpretation was not necessary and consequently decided not to add the issue to its agenda.