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Project: **Annual Improvements—2011–2013 Cycle**

Topic: **IFRS 13 *Fair Value Measurement*: scope of paragraph 52 (portfolio exception)**

Introduction

1. In May 2011, the IASB published IFRS 13 *Fair Value Measurement*. Some interested parties have asked us to clarify the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the 'portfolio exception') that is set out in paragraph 52 of IFRS 13.

Purpose of the paper

2. This paper:
   (a) provides an explanation of the intended scope of the portfolio exception set out in paragraph 52 of IFRS 13;
   (b) provides an explanation of the matter raised by some interested parties;
   (c) proposes to address the problem through the Annual Improvements project; and
   (d) asks the IASB whether it agrees with the staff's recommendation.

3. This paper proposes an amendment to be included in the Annual Improvements project. Because of the expected timing of the next Annual Improvements

Exposure Draft (November 2012), we are bringing this issue directly to the IASB for its consideration.

Intended scope of the portfolio exception set out in paragraph 52 of IFRS 13

4. Paragraph 52 of IFRS 13 defines the scope of paragraph 48 of the Standard. Paragraph 48 permits an entity to apply an exception to IFRS 13 when measuring the fair value of a group of financial assets and financial liabilities. The exception permits an entity that manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risks to measure that group of financial assets and financial liabilities on a net basis, rather than on an individual instrument basis. In other words, the group of financial assets and financial liabilities would be measured on the basis of the price that would be received to sell a net long position for a particular risk exposure, or to transfer a net short position for a particular risk exposure, in an orderly transaction between market participants at the measurement date.

5. Paragraph 52 states [emphasis added]:

> The exception in paragraph 48 applies only to **financial assets** and **financial liabilities** within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*.

6. We believe that the IASB intended the scope set out in paragraph 52 to apply to **all** contracts that are within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of 'financial assets' or 'financial liabilities' in IAS 32 *Financial Instruments: Presentation*. In other words, we believe that the intention of the IASB was not to change the scope of the items that are permitted to be measured on a net basis today under IAS 39 (paragraph AG72) or IFRS 9 (paragraph B5.4.4).

Matter raised by some interested parties

7. The inclusion of the terms ‘financial assets’ and ‘financial liabilities’ in paragraph 52 of IFRS 13 has raised the question of whether the intention of the IASB was to explicitly exclude from the scope set out in that paragraph contracts that, even though they are contracts within the scope of IAS 39 or IFRS 9, do not meet the definitions of ‘financial assets’ or ‘financial liabilities’ in IAS 32, such as some physically-settled commodity derivative contracts. The literal reading of paragraph 52 leads some interested parties to believe that such contracts would not benefit from this portfolio exception.

Transition provisions

8. The staff believe that the amendment will not change current practice, but that it will provide greater clarification. Consequently, the staff believe that retrospective application is appropriate and that earlier application should be permitted to confirm that the scope of the portfolio exception remained unchanged on moving to IFRS 13. For the same reasons, the staff believe that retrospective application is also appropriate for first-time adopters.

Addressing the problem through the Annual Improvements project

9. The staff believe that the concern raised is pervasive enough to warrant further consideration of this issue. Because IFRS 13 forms part of a joint effort between the IASB and the Financial Accounting Standard Board (FASB), the boards’ decisions on this particular matter will need to be closely aligned.

10. We understand that the FASB is currently planning to amend this paragraph in Topic 820 *Fair Value Measurement* in the *FASB Accounting Standards Codification*® through its Technical Corrections and Improvement project. They expect to publish an Exposure Draft that includes this amendment during the first quarter of 2013.

11. Appendix A to this paper contains the proposed wording for an amendment to paragraph 52 of IFRS 13 to address the matter described above.

12. We have also assessed the proposed amendment against the Annual Improvements criteria, which are reproduced in full below. In planning whether an issue should be addressed by amending IFRSs within the Annual Improvements project, the IASB assesses the issue against the following criteria. All the criteria (a)–(d) must be met to qualify for inclusion in Annual Improvements:

Annual Improvements criteria	Staff assessment of the proposed amendment
(a) The proposed amendment has one or both of the following characteristics: (i) clarifying—the proposed amendment would improve IFRSs by: • clarifying unclear wording in existing IFRSs; or • providing guidance where an absence of guidance is causing concern. A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle. (ii) correcting—the proposed amendment would improve IFRSs by: • resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirement should be applied; or • addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs. A correcting amendment does not propose a new principle or a change to an existing principle, but may create an exception from an existing principle.	(a) Yes. The proposed amendment would clarify the scope set out in paragraph 52 in IFRS 13 to encompass all contracts that are within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of 'financial assets' or 'financial liabilities' in IAS 32.
(b) The proposed amendment is well defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.	(b) Yes. We believe that the proposed amendment is well defined and is sufficiently narrow in scope.

(c) It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within Annual Improvements.	(c) Yes. We think that the IASB could reach a conclusion on this issue on a timely basis, because this deals with an amendment that is not controversial and it only seeks to align the current drafting of the IFRS with the IASB's original intention.
(d) If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.	(d) No, the proposed amendment is not related to any current or planned IASB project.

13. On the basis of the analysis in the table above, the proposed amendment, in our opinion, satisfies the Annual Improvements criteria.

14. We recommend that the IASB should amend paragraph 52 of IFRS 13 as indicated in Appendix A.

Question for the IASB
Does the IASB agree with the staff's recommendation in paragraph 14?

Appendix A—Proposed amendment to IFRS 13 *Fair Value Measurement*

Paragraph 52 is amended and paragraph C5[1] is added.

52 The exception in paragraph 48 applies only to financial assets, ~~and~~ financial liabilities and other contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments.* The references to financial assets and financial liabilities in paragraphs 48–51 and 53-56 should be read as pertaining to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities in IAS 32 *Financial Instruments: Presentation.*

Effective date and transition

C5 *Annual Improvements 2011–2013 cycle*, issued in [date] 2013, amended paragraph 52. An entity shall apply that amendment retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after 1 January 2014. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

Amendment to the Basis for Conclusions on IFRS 13 *Fair Value Measurement*

Paragraph BC1 is added.

BC1 After issuing IFRS 13 the IASB was made aware that it was not clear whether the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the ‘portfolio exception’) set out in paragraph 52 includes all contracts that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, including those that are accounted for as if they were financial instruments, but that do not meet the definitions of financial assets or financial liabilities in IAS 32 *Financial Instruments: Presentation*, such as some contracts to buy or sell non-financial items.

[1] We propose to add paragraph C5 noting that the Exposure Draft *Annual Improvements to IFRSs 2010–2012 Cycle*, published in May 2012, has already proposed to add paragraph C4.

BC2 The IASB did not intend to exclude such contracts from the scope of the portfolio exception. Consequently, the IASB proposes to amend paragraph 52 of this Standard to clarify that the portfolio exception applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32.