

Introduction and Invitation to Comment

The International Accounting Standards Board proposes to amend IAS 39 *Financial Instruments: Recognition and Measurement*. It intends to clarify that the revised effective interest rate calculated on cessation of fair value hedge accounting in accordance with paragraph 92 should be used for the remeasurement of the hedged item when paragraph AG8 is applicable.

The Board invites comments on the proposed amendment. It would particularly welcome answers to the question below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The Board is not requesting comments on matters in IAS 39 not addressed in the exposure draft.

Question

Do you agree with the proposal to amend paragraph AG8 of IAS 39 to clarify that the revised effective interest rate calculated in accordance with paragraph 92 shall be used, when applicable, for the purposes of the remeasurement of the financial instrument in accordance with paragraph AG8? If not, why?

Proposed amendment to IAS 39 *Financial Instruments: Recognition and Measurement*

In the Standard, paragraph AG8 is amended (new text is underlined).

Effective interest rate

...

AG8 If an entity revises its estimates of payments or receipts, the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate or, when applicable, the revised effective interest rate calculated in accordance with paragraph 92. The adjustment is recognised as income or expense in profit or loss.

Basis for Conclusions on Proposed Amendment to IAS 39 Financial Instruments: Recognition and Measurement

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

Effective interest rate

- BC1 The Board identified an apparent inconsistency in the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. It relates to whether the revised or the original effective interest rate of a debt instrument should be applied in the remeasurement of the instrument's carrying amount on the cessation of fair value hedge accounting. A revised effective interest rate is calculated when fair value hedge accounting ceases.
- BC2 The Board decided to remove this inconsistency by clarifying that the remeasurement of an instrument in accordance with paragraph AG8 is based on the revised effective interest rate calculated in accordance with paragraph 92, when applicable, rather than the original effective interest rate.