Explanatory Statement

Accounting Standard AASB 2017-6  
*Amendments to Australian Accounting Standards –   
Prepayment Features with Negative Compensation*

**December 2017**



# EXPLANATORY STATEMENT

## Standards Amended by AASB 2017-6

This Standard makes amendments to AASB 9 *Financial Instruments* (December 2014).

These amendments arise from the issuance of International Financial Reporting Standard *Prepayment Features with Negative Compensation* (Amendments to IFRS 9) by the International Accounting Standards Board (IASB) in October 2017.

### Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

## Main Features of AASB 2017-6

### Main Requirements

This Standard amends AASB 9 to permit entities to measure at amortised cost or fair value through other comprehensive income particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature. This is subject to meeting other conditions, such as the nature of the business model relevant to the financial asset. Otherwise, the financial assets would be measured at fair value through profit or loss.

### Application Date

AASB 2017-6 applies to annual periods beginning on or after 1 January 2019. Earlier application is permitted.

### References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

## Consultation Prior to Issuing this Standard

The AASB issued Exposure Draft ED 279 *Prepayment Features with Negative Compensation* in April 2017 for comment by 17 May 2017. ED 279 incorporated IASB Exposure Draft ED/2017/3 *Prepayment Features with Negative Compensation*. No submissions were received by the AASB in respect of the proposals in ED 279. The AASB and two other Australian constituents made submissions to the IASB on ED/2017/3, supporting the IASB’s proposal that an amending standard should be issued to allow subject financial instruments to be measured at amortised cost or fair value through other comprehensive income.

The IASB made several changes to the proposed amendments based on the feedback received. The IASB clarified that the eligibility condition in question permits reasonable negative compensation for the lender, and set the mandatory effective date of 1 January 2019, with early application permitted.

The AASB considered the amendments made by the IASB to IFRS 9 *Financial Instruments* in finalising AASB 2017-6 and the amendments to AASB 9.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2017-6 as the amendments made do not have a substantial direct or indirect impact on business or competition.

## Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the   
*Human Rights (Parliamentary Scrutiny) Act 2011*

### Accounting Standard AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation*

### Overview of the Accounting Standard

AASB 2017-6 makes amendments to AASB 9 *Financial Instruments* (December 2014).

These amendments arise from the issuance of International Financial Reporting Standard *Prepayment Features with Negative Compensation* (Amendments to IFRS 9) by the International Accounting Standards Board (IASB) in October 2017.

This Standard amends AASB 9 to permit entities to measure at amortised cost or fair value through other comprehensive income particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature. This is subject to meeting other conditions, such as the nature of the business model relevant to the financial asset. Otherwise, the financial assets would be measured at fair value through profit or loss.

### Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

### Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.