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Technical Update TU012/2024

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This article covers important amendments issued by:

The International Accounting Standards Board, as adopted and approved by Accounting and Auditing Regulator, Cambodia's Regulator of the Accountancy Profession

The newsletter covers the following areas:

I. LACK OF EXCHANGEABILITY - AMENDMENTS TO IAS 21 *THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES*

II. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS - AMENDMENTS TO IFRS 9 *FINANCIAL INSTRUMENTS* AND IFRS 7 *FINANCIAL INSTRUMENTS: DISCLOSURES*

I. LACK OF EXCHANGEABILITY - AMENDMENTS TO IAS 21 *THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES*

Overview

In August 2023, the International Accounting Standards Board (IASB) amended IAS 21 to add requirements to help entities to determine whether a currency is exchangeable into another currency, and the spot exchange rate to use when it is not.

A currency is exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. [IAS 21.8]

Core Content

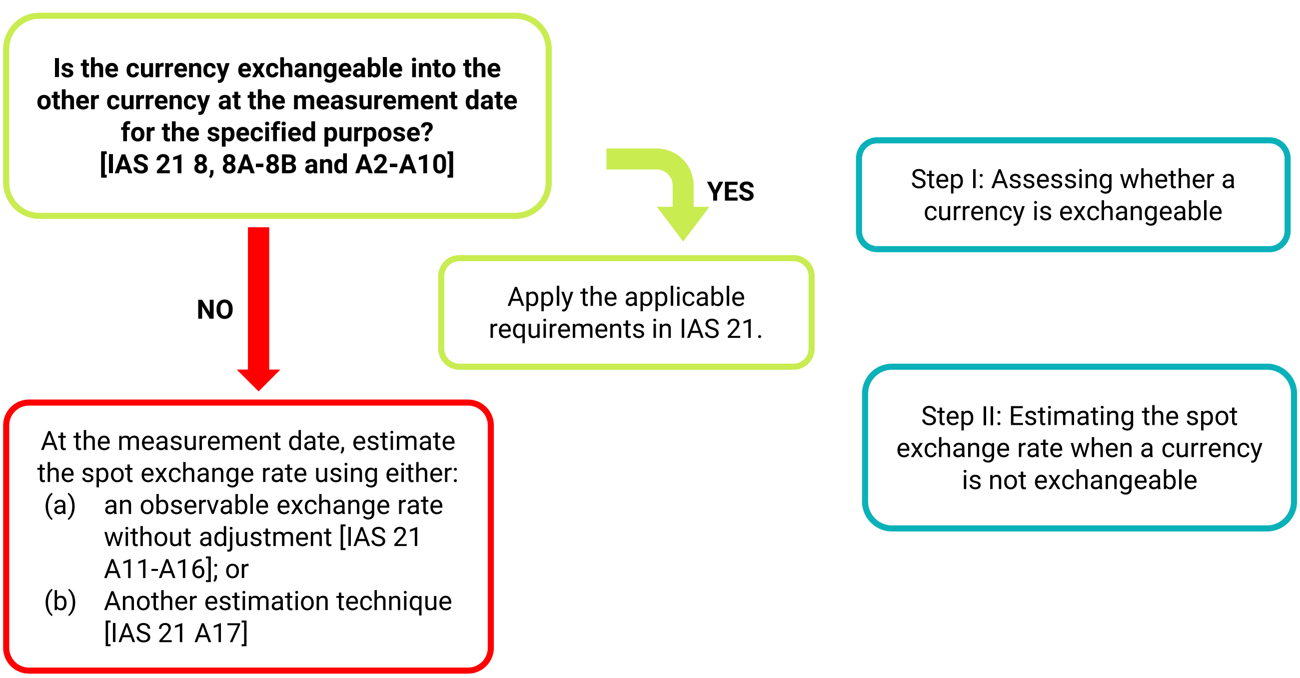
IAS 21 sets out the exchange rate that an entity uses when it reports foreign currency transactions in the functional currency or translates the results of a foreign operation in a different currency. Until now, IAS 21 set out the exchange rate to use when exchangeability between two currencies is temporarily lacking, but not what to do when lack of exchangeability is not temporary.

The amendments to IAS 21 do not provide detailed requirements on how to estimate the spot exchange rate. Instead, they set out a framework under which an entity can determine the spot exchange rate at the measurement date using:

a. an observable exchange rate without adjustment [IAS 21 A11-A16], for example:
   i. spot exchange rate for a purpose other than that for which an entity assesses exchangeability; or
   ii. the first exchange rate at which an entity is able to obtain the other currency for the specified purpose after exchangeability of the currency is restored.

b. another estimation technique [IAS 21 A17], for example, that could be any observable exchange rate adjusted as necessary to meet the objective of the new requirements.

The following steps can be used to help the entity to assess the requirements:



Effective Date and Transition

The amendments are effective for annual reporting periods beginning on or after 1 January 2025, with earlier application permitted.

When an entity first applies the new requirements, it is not permitted to restate comparative information. However, the entity is required to translate the affected amounts at estimated spot exchange rates at the date of initial application, with an adjustment to retained earnings (if between foreign and functional currency) or to the reserve for cumulative translation differences (if between functional and presentation currency).

II. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS - AMENDMENTS TO IFRS *9 FINANCIAL INSTRUMENTS* AND IFRS 7 *FINANCIAL INSTRUMENTS: DISCLOSURES*

Overview

On 30 May 2024, the IASB issued amendments to IFRS 9 and IFRS 7. IASB identified some requirements that would benefit from clarification to improve their understandability. These regard electronic cash transfer, contractual cash flow characteristics of financial assets and investments in equity instruments to which the other comprehensive income (OCI) presentation option is applied.

The amendments respond to recent questions arising in practice, and include new requirements not only for financial institutions but also for corporate entities.

Core Content

The following are key changes in classification and measurement of financial instruments in the amendments to IFRS 9 *Financial Instruments*

- *Derecognition of a financial liability settled through electronic transfer*: The amendments to the application guidance of IFRS 9 permit an entity to deem a financial liability (or part of it) that will be settled in cash using an electronic payment system to be discharged before the settlement date if specified criteria are met. An entity that elects to apply the derecognition option would be required to apply it to all settlements made through the same electronic payment system. [Amendments to IFRS 9 B3.3.8]

- *Classification of financial assets:*
  - *Contractual terms that are consistent with a basic lending arrangement.* The amendments to the application guidance of IFRS 9 provide guidance on how an entity can assess whether contractual cash flows of a financial asset are consistent with a basic lending arrangement. To illustrate the changes to the application guidance, the amendments add examples of financial assets that have, or do not have, contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. [Amendments to IFRS 9 B4.1.8A]
  - *Assets with non-recourse features*. The amendments enhance the description of the term 'non-recourse'. Under the amendments, a financial asset has non-recourse features if an entity's ultimate right to receive cash flows is contractually limited to the cash flows generated by specified assets. [Amendments to IFRS 9 B4.1.16A]

- *Contractually linked instruments*. The amendments clarify the characteristics of contractually linked instruments that distinguish them from other transactions. The amendments also note that not all transactions with multiple debt instruments meet the criteria of transactions with multiple contractually linked instruments and provide an example. In addition, the amendments clarify that the reference to instruments in the underlying pool can include financial instruments that are not within the scope of the classification requirements. [Amendments to IFRS 9 B4.1.20]

The following are key changes in the amendments to IFRS 7 *Financial Instruments: Disclosures*

- *Disclosures:*
  - *Investments in equity instruments designated at fair value through other comprehensive income*. The requirements in IFRS 7 are amended for disclosures that an entity provides in respect of these investments. In particular, an entity would be required to disclose the fair value gain or loss presented in other comprehensive income during the period, showing separately the fair value gain or loss that relates to investments derecognised in the period and the fair value gain or loss that relates to investments held at the end of the period. [Amendments to IFRS 7 11A-B]
  - *Contractual terms that could change the timing or amount of contractual cash flows*. The amendments require the disclosure of contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event that does not relate directly to changes in a basic lending risks and costs. The requirements apply to each class of financial asset measured at amortised cost or fair value through other comprehensive income and each class of financial liability measured at amortised cost. [Amendments to IFRS 7 20B-C]

Effective Date and Transition

The amendments are effective for annual reporting periods beginning on or after 1 January 2026. Earlier application of either all the amendments at the same time or only the amendments to the classification of financial assets is permitted.

An entity is required to apply the amendments retrospectively. An entity is not required to restate prior periods to reflect the application of the amendments, but may do so if, and only if, it is possible to do so without the use of hindsight.

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Let us be of assistance to you.

For further information about how Baker Tilly Cambodia can assist you and your organisation, please contact us via below.

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