

In brief

A look at current financial reporting issues

23 March 2018

IFRS Interpretations committee agenda decision on the presentation of interest revenue for certain financial instruments

At a glance

The IFRS Interpretations Committee has concluded that the line item 'interest revenue' can contain only interest income on assets that are measured at amortised cost or fair value through other comprehensive income (subject to the effect of applying hedge accounting to derivatives in designated hedge relationships).

This will be a change to current practice for some entities. It is likely to have the most significant impact on financial services entities, such as banks for whom interest revenue or net interest margin is a key performance indicator.

What is the issue?

IFRS 9 introduced a consequential amendment to paragraph 82(a) of IAS 1, under which interest revenue calculated using the effective interest method is required to be presented separately on the face of the income statement.

The IFRS Interpretations Committee (the 'Committee') has issued an agenda decision which concludes that this separate line item can be used only for interest on those financial assets that are measured at amortised cost or fair value through other comprehensive income (subject to the effect of applying hedge accounting to derivatives in designated hedge relationships).

This means that interest income on items that are not measured at amortised cost or fair value through other comprehensive income will no longer be able to be included in interest revenue.

What is the impact?

This change is likely to have the most significant impact on financial services entities, such as banks. Some such entities currently include interest income on certain assets measured at fair value through profit or loss ('FVTPL') in interest revenue, but they will no longer be able to do this.

Depending on an entity's existing presentation policy, this change might impact the presentation of gains and losses on some or all of the following:

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- derivatives including ‘economic hedges’ to which hedge accounting has not been applied; however, where hedge accounting is applied, hedging gains and losses can continue to be presented in interest revenue;
- non-derivative assets to which the fair value option has been applied;
- non-derivative assets that fail the ‘solely payments of principal and interest’ requirements in IFRS 9; and
- non-derivative assets that fall within the ‘other’ business model in IFRS 9.

Can additional line items be presented?

Some entities might wish, as a matter of accounting policy, to present additional line items, on the face of the income statement, for ‘interest’ on instruments measured at FVTPL. Whilst not addressed by the Committee, IAS 1 permits an entity to present additional line items where doing so is relevant to an understanding of the entity’s financial performance. If such a presentation is adopted, the additional line items should be appropriately presented and labelled. Also, the entity’s accounting policy, including how such amounts are calculated and on which instruments, should be disclosed.

Some local regulators have expressed views on the presentation of interest income for financial instruments measured at FVTPL, in which case regard should be had to those views.

When does it apply?

The Committee’s agenda decision is effective at the same time as IFRS 9 (that is, for accounting periods beginning on or after 1 January 2018).

Where do I get more details?

For more information, refer to ‘FAQ 4.102.5 – Presentation of interest for derivatives and other financial instruments measured at FVTPL’ in the PwC Manual of accounting, or contact Sandra Thompson (sandra.thompson@pwc.com), Mark Randall (mark.b.randall@pwc.com) or Hannah King (hannah.king@pwc.com).