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ACCOUNTING SUMMARY

# IFRS 9 Financial Instruments

## Objective

The objective of this Standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

## Navigating through IFRS 9

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## Scope

This Standard shall be applied by all entities to all types of financial instruments **except**:

(a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* or IAS 28 *Investments in Associates and Joint Ventures*. However, entities shall apply this Standard to derivatives on an interest in a subsidiary, associate or joint venture unless the derivative meets the definition of an equity instrument of the entity in IAS 32 *Financial Instruments: Presentation*.

(b) rights and obligations under leases to which IFRS 16 *Leases* applies. **However**:
   (i) finance lease receivables (i.e. net investments in finance leases) and operating lease receivables recognised by a lessor are subject to the derecognition and impairment requirements of this Standard;
   (ii) lease liabilities recognised by a lessee are subject to the derecognition requirements of this Standard and derivatives that are embedded in leases are subject to the embedded derivatives requirements of this Standard.

(c) employers' rights and obligations under employee benefit plans, to which IAS 19 *Employee Benefits* applies.

(d) financial instruments issued by the entity that meet the definition of an equity instrument in IAS 32 (including options and warrants) or that are required to be classified as an equity instrument. **However,** the holder of such equity instruments shall apply this Standard to those instruments, unless they meet the exception in (a).

(e) rights and obligations arising under:
   (i) an insurance contract as defined in IFRS 4 *Insurance Contracts*, **other than** an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract, or
   (ii) a contract that is within the scope of IFRS 4 because it contains a discretionary participation feature. **However**, this Standard applies to a derivative that is embedded in a contract within the scope of IFRS 4 if the derivative is not itself a contract within the scope of IFRS 4. Moreover, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as

insurance contracts and has used accounting that is applicable to insurance contracts, the issuer may elect to apply either this Standard or IFRS 4 to such financial guarantee contracts. The issuer may make that election contract by contract, but the election for each contract is irrevocable.

(f) any forward contract between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination within the scope of IFRS 3 *Business Combinations* at a future acquisition date. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction.

(g) loan commitments **other than** those loan commitments described in this Standard. However, an issuer of loan commitments shall apply the impairment requirements of this Standard to loan commitments that are not otherwise within the scope of this Standard. Also, all loan commitments are subject to the derecognition requirements of this Standard. The following loan commitments are within the scope of this standard:
   (i) loan commitments that the entity designates as financial liabilities at fair value through profit or loss. An entity that has a past practice of selling the assets resulting from its loan commitments shortly after origination shall apply this Standard to all its loan commitments in the same class;
   (ii) loan commitments that can be settled net in cash or by delivering or issuing another financial instrument. These loan commitments are derivatives. A loan commitment is not regarded as settled net merely because the loan is paid out in instalments (for example, a mortgage construction loan that is paid out in instalments in line with the progress of construction); and
   (iii) commitments to provide a loan at a below-market interest rate.

(h) financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 *Share-based Payment* applies, **except** for those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments:
   (i) and are not entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements;
   (ii) may be irrevocably designated as measured at fair value through profit or loss. This designation is available only at inception of the contract and only if it eliminates or significantly reduces a recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from not recognising that contract. This Standard shall be applied to those contracts that an entity designates as measured at fair value through profit or loss.

(i) rights to payments to reimburse the entity for expenditure that it is required to make to settle a liability that it recognises as a provision in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, or for which, in an earlier period, it recognised a provision in accordance with IAS 37.

(j) rights and obligations within the scope of IFRS 15 *Revenue from Contracts with* Customers that are financial instruments, **except** for those that IFRS 15 specifies are accounted for in accordance with this Standard.

## Effective date and Transition

An entity shall apply this Standard for annual periods beginning on or after 1 January 2018. Earlier application is permitted. If an entity elects to apply this Standard early, it must disclose that fact and apply all of the requirements in this Standard at the same time

Despite the requirements above, for annual periods beginning before 1 January 2018, an entity may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss 5.7.1(c); 5.7.7-5.7.9; 7.2.14 and B5.7.5-B5.7.20 without applying the other requirements in this Standard. If an entity elects to apply only those paragraphs, it shall disclose that fact and provide on an ongoing basis the related disclosures set out in IFRS 7 *Financial Instruments: Disclosures* (as amended by IFRS 9 (2010)).

An entity shall apply this Standard retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except if it is impracticable (as defined in IAS 8) for an entity to assess a modified time value of money element.

## Defined terms

*Accounts receivable* are amounts due from customers for goods or services which have been provided in the normal course of business operations.

*Amortised cost of financial asset or financial liability* is the amount at which the asset or liability was measured upon initial recognition, minus principal repayments, plus or minus the cumulative amortisation of any premium or discount, and minus any write-down for impairment or uncollectibility.

*Available-for-sale financial assets* are those non-derivative financial assets which are designated as available-for-sale or are not classified as:

- Loans and receivables;
- Held-to-maturity investments; or
- Financial assets at fair value through profit or loss.
  *Note: IFRS 9 does not contain the classification for available-for-sale financial assets.*

*Carrying amount* is the amount at which an asset is presented in the statement of financial position.

*Cash* refers to cash on hand and demand deposits with banks or other financial institutions.

*Cash equivalents* are short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.

*Compound instrument* is an issued single financial instrument that contains both liability and equity (e.g. a convertible loan). Under IAS 32 principles, such instruments are split accounted.

*Control* is the ability to direct the strategic and financial and operating policies of an entity so as to obtain benefits from its activities.

*Credit risk* is the risk that a loss may occur from the failure of one party to a financial instrument to discharge an obligation according to the terms of a contract.

*Derecognition* is the removal of a previously recognised financial asset or liability from an entity's statement of financial position.

*Derivative* is a financial instrument or other contract with all three of the following features:

- Its value changes in response to changes in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.
- It requires little or no initial net investment relative to the other types of contracts that have a similar response to changes in market conditions.
- It is settled at a future date.

*Effective interest method* is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial instruments) and of allocating the interest income or expense over the relevant period.

*Effective interest rate* is the rate that exactly discounts estimated future cash flow to the net carrying amount of the financial instrument through the expected life of the instrument (or a shorter period, when appropriate). In calculating the effective rate, the entity should estimate future cash flows after considering all of the contractual

terms of the financial instrument but without considering future credit losses. Fees, points paid or received between parties to the contract, transaction costs and other premiums and discounts are also included.

*Embedded derivative* is a component of a hybrid (combined) financial instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a standalone derivative.

*Equity instrument* is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities.

*Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's-length transaction.

*Financial instrument* is any contract which gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

*Financial asset* is any asset that is one of the following:

- Cash
- An equity instrument of another entity
- A contractual right to receive cash or another financial asset from another entity; or to exchange financial instruments with another entity under conditions that are potentially favourable.
- A contract that will be settled in the reporting entity's own equity instruments and is:
  - A non-derivative for which the entity is, or may be obligated, to receive a variable number of its own equity instruments; or
  - A derivative that will, or may, be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments (which excludes puttable financial instruments classified as equity and instruments that are themselves contracts for the future receipt or delivery of the entity's equity instruments)

*Financial liability* is any liability which meets either of the following criteria:

- A contractual obligation:
  - to deliver cash or another financial asset to another entity; or
  - to exchange financial instruments with another entity under conditions which are potentially unfavourable to the entity.
- A contract that will, or may, be settled in the entity's own equity instruments and is:
  - a non-derivative for which the entity is, or may, be obligated to deliver a variable number of its own equity instruments; or
  - a derivative that will, or may, be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments (which excludes puttable financial instruments classified as equity and instruments that are themselves contracts for the future receipt or delivery of the entity's equity instruments).

*Hedging* involves designating one or more hedging instruments such that the change in fair value or cash flows of the hedging instrument is an offset, in whole or part, to the change in fair value or cash flows of the hedged item. The objective is to ensure that the gain or loss on the hedging instrument is recognised in profit or loss in the same period that the hedged item affects profit or loss.

*Hedging instrument* for hedge accounting purposes, is a designated derivative or (for a hedge of the risk of changes in foreign currency exchange rates only) a designated non-derivative financial asset or non-derivative financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.

*Held-to-maturity investments* are non-derivative financial assets with fixed or determinable payments and fixed maturities that the entity has the positive intent and ability to hold to maturity.

*Liquidity risk* is the risk that an entity may encounter difficulty in meeting obligations associated with financial liabilities.

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those at fair value through profit or loss;
- those designated as available-for-sale; and
- those which the holder may not recover substantially all of its initial investment.

*Market risk* is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. There are three types of market risk:

- currency risk;
- interest rate risk; and
- other price risk.

*Market value* is the amount obtainable from a sale, or payable on acquisition, of a financial instrument in an active market.

*Other price risk* is the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

*Transaction costs* are the incremental costs directly attributable to the acquisition or disposal of a financial asset or liability.

## Initial recognition

An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument

## Initial measurement

Except for trade receivables which do not contain a significant financing component, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

## Financial Assets

### Classification of financial assets

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

An entity shall classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

(a) the entity’s business model for managing the financial assets and

(b) the contractual cash flow characteristics of the financial asset.

A financial asset shall be measured at **amortised cost** if **both** of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at **fair value through other comprehensive income** if **both** of the following conditions are met:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## Subsequent measurement of financial assets

After initial recognition, an entity shall measure a financial asset at:

(a) amortised cost;
(b) fair value through other comprehensive income; or
(c) fair value through profit or loss.

An entity shall apply the impairment requirements to financial assets that are measured at amortised cost and to financial assets that are measured at fair value through other comprehensive income.

## Derecognition of financial assets

Before evaluating whether, and to what extent, derecognition is appropriate, an entity determines whether those requirements should be applied to a part of a financial asset (or a part of a group of similar financial assets) or a financial asset (or a group of similar financial assets) in its entirety, as follows:

(a) Derecognition requirements are applied to a part of a financial asset (or a part of a group of similar financial assets) if, and only if, the part being considered for derecognition meets one of the following three conditions.
   (i) The part comprises only specifically identified cash flows from a financial asset (or a group of similar financial assets).
   (ii) The part comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset (or a group of similar financial assets).
   (iii) The part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).

(b) In all other cases, derecognition requirements are applied to the financial asset in its entirety (or to the group of similar financial assets in their entirety).

In the derecognition requirements, the term 'financial asset' refers to either a part of a financial asset (or a part of a group of similar financial assets) as identified in (a) above or, otherwise, a financial asset (or a group of similar financial assets) in its entirety.

An entity shall derecognise a financial asset when, and only when:

(a) the contractual rights to the cash flows from the financial asset expire, or
(b) it transfers the financial asset and the transfer qualifies for derecognition.

### Transfer of financial assets

An entity transfers a financial asset if, and only if, it either:

(a) transfers the contractual rights to receive the cash flows of the financial asset, or
(b) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets all of the following conditions:
    (i) The entity has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition.
    (ii) The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.
    (iii) The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the entity is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents (as defined in IAS 7 *Statement of Cash Flows*) during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

When an entity transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset. In this case:
(a) if the entity **transfers** *substantially all the risks and rewards of ownership* of the financial asset, the entity shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer.
(b) if the entity **retains** *substantially all the risks and rewards of ownership* of the financial asset, the entity shall continue to recognise the financial asset.
(c) if the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the entity shall determine whether it has retained control of the financial asset. In this case:
    (i) if the entity has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer.
    (ii) if the entity has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

If an entity transfers a financial asset in a transfer that qualifies for **derecognition in its entirety** and retains the right to service the financial asset for a fee:
(a) it shall recognise either a servicing asset or a servicing liability for that servicing contract.
    (i) If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation shall be recognised at its fair value or
    (ii) If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset shall be recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset as follows:
        (a) If the transferred asset is part of a larger financial asset (when an entity transfers interest cash flows that are part of a debt instrument) and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset shall be allocated between the part that continues to be recognised and the part that is derecognised, on the basis of the relative fair values of those parts on the date of the transfer. For this purpose, a retained servicing asset shall be treated as a part that continues to be recognised.
        (b) The difference between:
            1. the carrying amount (measured at the date of derecognition) allocated to the part derecognised; and
            2. the consideration received for the part derecognised (including any new asset obtained less any new liability assumed)

            shall be recognised in profit or loss.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity shall recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between:

(a) the carrying amount (measured at the date of derecognition) and
(b) the consideration received (including any new asset obtained less any new liability assumed) shall be recognised in profit or loss.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. In subsequent periods, the entity shall recognise any income on the transferred asset and any expense incurred on the financial liability.

## Continuing involvement in financial assets

If an entity neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset, and retains control of the transferred asset, the entity continues to recognise the transferred asset to the extent of its continuing involvement. The extent of the entity's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

(a) When the entity's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the entity's continuing involvement is the lower of
    (i) the amount of the asset; and
    (ii) the maximum amount of the consideration received that the entity could be required to repay ('the guarantee amount').
(b) When the entity's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the extent of the entity's continuing involvement is the amount of the transferred asset that the entity may repurchase. However, in the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.
(c) When the entity's continuing involvement takes the form of a cash-settled option or similar provision on the transferred asset, the extent of the entity's continuing involvement is measured in the same way as that which results from non-cash settled options as set out in (b) above.

When an entity continues to recognise an asset to the extent of its continuing involvement, the entity also recognises an associated liability. Despite the other measurement requirements in this Standard, the transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the entity has retained. The associated liability is measured in such a way that the net carrying amount of the transferred asset and the associated liability is:

(a) the amortised cost of the rights and obligations retained by the entity, if the transferred asset is measured at amortised cost, or
(b) equal to the fair value of the rights and obligations retained by the entity when measured on a stand-alone basis, if the transferred asset is measured at fair value.

The entity shall continue to recognise any income arising on the transferred asset to the extent of its continuing involvement and shall recognise any expense incurred on the associated liability.

For the purpose of subsequent measurement, recognised changes in the fair value of the transferred asset and the associated liability are accounted for consistently with each other and shall not be offset.

If an entity's continuing involvement is in only a part of a financial asset (e.g. when an entity retains an option to repurchase part of a transferred asset, or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the entity retains control), the entity allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between:

(a) the carrying amount (measured at the date of derecognition) allocated to the part that is no longer recognised and

(b) the consideration received for the part no longer recognised
shall be recognised in profit or loss.

### All transfers

If a transferred asset continues to be recognised, the asset and the associated liability shall not be offset. Similarly, the entity shall not offset any income arising from the transferred asset with any expense incurred on the associated liability.

If a transferor provides non-cash collateral (such as debt or equity instruments) to the transferee, the accounting for the collateral by the transferor and the transferee depends on whether the transferee has the right to sell or repledge the collateral and on whether the transferor has defaulted. The transferor and transferee shall account for the collateral as follows:

(a) If the transferee has the right by contract or custom to sell or repledge the collateral, then the transferor shall reclassify that asset in its statement of financial position separately from other assets.
(b) If the transferee sells collateral pledged to it, it shall recognise the proceeds from the sale and a liability measured at fair value for its obligation to return the collateral.
(c) If the transferor defaults under the terms of the contract and is no longer entitled to redeem the collateral, it shall derecognise the collateral, and the transferee shall recognise the collateral as its asset initially measured at fair value or, if it has already sold the collateral, derecognise its obligation to return the collateral.
(d) Except as provided in (c), the transferor shall continue to carry the collateral as its asset, and the transferee shall not recognise the collateral as an asset.

## Reclassification of financial assets

If an entity reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. The entity shall not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

If an entity reclassifies a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss.

If an entity reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

If an entity reclassifies a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If an entity reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date.

However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment.

If an entity reclassifies a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

If an entity reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

### Embedded derivatives

If a hybrid contract contains a host that is an asset within the scope of this Standard, an entity shall apply the requirements for the classification of financial assets to the entire hybrid contract.

If a hybrid contract contains a host that is not an asset within the scope of this Standard, an embedded derivative shall be separated from the host and accounted for as a derivative under this Standard if, and only if:

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host
(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
(c) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for in accordance with the appropriate Standards. This Standard does not address whether an embedded derivative shall be presented separately in the statement of financial position.

If a contract contains one or more embedded derivatives and the host is not an asset within the scope of this Standard, an entity may designate the entire hybrid contract as at fair value through profit or loss unless:

(a) the embedded derivative(s) do(es) not significantly modify the cash flows that otherwise would be required by the contract; or
(b) it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.

If an entity is required by this Standard to separate an embedded derivative from its host, but is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, it shall designate the entire hybrid contract as at fair value through profit or loss.

## Financial Liabilities

### Classification and subsequent measurement of financial liabilities

An entity shall classify all financial liabilities as subsequently measured at **amortised cost**, except for:

(a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.
(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
(c) financial guarantee contracts. After initial recognition, an issuer of such a contract shall (unless (a) or (b) applies) subsequently measure it at the **higher** of:
    (i) the amount of the loss allowance (impairment) and
    (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 *Revenue from Contracts with Customers*.
(d) commitments to provide a loan at a below-market interest rate. An issuer of such a commitment shall (unless (a) applies) subsequently measure it at the **higher** of:
    (i) the amount of the loss allowance (impairment) and

    (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 *Revenue from Contracts with Customers*.

(e) contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies. Such contingent consideration shall subsequently be measured at fair value with changes recognised in profit or loss.

An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss (when a contract contains one or more embedded derivatives and the host is not an asset within the scope of this Standard) or when doing so results in more relevant information, because either:

(a) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
(b) a group of financial liabilities or financial assets and financial liabilities is managed, and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

### Derecognition of financial liabilities

An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires.

An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

### Reclassification of financial liabilities

An entity shall not reclassify any financial liability.

## Amortised cost measurement

### Effective interest method

Interest revenue shall be calculated by using the effective interest method. This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

(a) purchased or originated credit-impaired financial assets. For those financial assets, the entity shall apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.
(b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

An entity that, in a reporting period, calculates interest revenue by applying the effective interest method to the amortised cost of a financial asset, shall, in subsequent reporting periods, calculate the interest revenue by applying the effective interest rate to the gross carrying amount if the credit risk on the financial instrument improves so that

the financial asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the requirements in (b) above were applied (such as an improvement in the borrower's credit rating).

# Impairment

## Recognition of expected credit losses

An entity shall recognise a loss allowance for expected credit losses on a financial asset that is measured at amortised cost or fair value through other comprehensive income, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply.

Subject to paragraphs on purchased or originated credit-impaired financial assets, at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

Subject to paragraphs on purchased or originated credit-impaired financial assets, if, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

### Purchased or originated credit-impaired financial assets

Despite paragraphs on recognition of expected credit losses above, at the reporting date, an entity shall only recognise the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.

At each reporting date, an entity shall recognise in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss. An entity shall recognise favourable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

### Simplified approach for trade receivables, contract assets and lease receivables

Despite paragraphs above an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for:

(a) trade receivables or contract assets that result from transactions that are within the scope of IFRS 15 *Revenue from Contracts with Customers*, and that:
   (i) do not contain a significant financing component in accordance with IFRS 15 *Revenue from Contracts with Customers* or
   (ii) contain a significant financing component in accordance with IFRS 15 *Revenue from Contracts with Customers*, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy shall be applied to all such trade receivables or contract assets but may be applied separately to trade receivables and contract assets.

(b) lease receivables that result from transactions that are within the scope of IFRS 16 *Leases*, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy shall be applied to all lease receivables but may be applied separately to finance and operating lease receivables.

## Measurement of expected credit losses

An entity shall measure expected credit losses of a financial instrument in a way that reflects:

(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(b) the time value of money; and

(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

## Gains and losses

A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognised in profit or loss unless:

(a) it is part of a hedging relationship;
(b) it is an investment in an equity instrument and the entity has elected to present gains and losses on that investment in other comprehensive income;
(c) it is a financial liability designated as at fair value through profit or loss and the entity is required to present the effects of changes in the liability's credit risk in other comprehensive income; or
(d) it is a financial asset measured at fair value through other comprehensive income.

A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, reclassified through the amortisation process or in order to recognise impairment gains or losses.

A gain or loss on a financial liability that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial liability is derecognised and through the amortisation process.

### Investments in equity instruments

At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this Standard that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

### Liabilities designated as at fair value through profit or loss

An entity shall present a gain or loss on a financial liability that is designated as at fair value through profit or loss as follows:

(a) The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income and
(b) the remaining amount of change in the fair value of the liability shall be presented in profit or loss

unless the treatment of the effects of changes in the liability's credit risk described in (a) would create or enlarge an accounting mismatch in profit or loss.

### Assets measured at fair value through other comprehensive income

A gain or loss on a financial asset measured at fair value through other comprehensive income shall be recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified.

When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. If the financial asset is reclassified out of the fair value through other comprehensive income measurement category, the entity shall account for the cumulative gain or loss that was previously recognised in other comprehensive income in accordance with the provisions on reclassification of financial assets. Interest calculated using the effective interest method is recognised in profit or loss.

# Hedged Accounting

## Objective and scope of hedge accounting

The objective of hedge accounting is to represent, in the financial statements, the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss (or other comprehensive income, in the case of investments in equity instruments for which an entity has elected to present changes in fair value in other comprehensive income). This approach aims to convey the context of hedging instruments for which hedge accounting is applied in order to allow insight into their purpose and effect.

## Qualifying criteria for hedge accounting

A hedging relationship qualifies for hedge accounting only if **all** of the following criteria are met:

(a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items.

(b) at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio).

(c) the hedging relationship meets all of the following hedge effectiveness requirements:

- (i) there is an economic relationship between the hedged item and the hedging instrument;
- (ii) the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- (iii) the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

## Hedging instruments

### Qualifying instruments

A derivative measured at fair value through profit or loss may be designated as a hedging instrument, except for some written options.

A non-derivative financial asset or a non-derivative financial liability measured at fair value through profit or loss may be designated as a hedging instrument unless it is a financial liability designated as at fair value through profit or loss for which the amount of its change in fair value that is attributable to changes in the credit risk of that liability is presented in other comprehensive income.

For a hedge of foreign currency risk, the foreign currency risk component of a non-derivative financial asset or a non-derivative financial liability may be designated as a hedging instrument provided that it is not an investment in an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income.

For hedge accounting purposes, only contracts with a party external to the reporting entity (i.e. external to the group or individual entity that is being reported on) can be designated as hedging instruments.

## Designation of hedging instruments

A qualifying instrument must be designated in its entirety as a hedging instrument. The only exceptions permitted are:

(a) separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the change in intrinsic value of an option and not the change in its time value;

(b) separating the forward element and the spot element of a forward contract and designating as the hedging instrument only the change in the value of the spot element of a forward contract and not the forward element; similarly, the foreign currency basis spread may be separated and excluded from the designation of a financial instrument as the hedging instrument; and

(c) a proportion of the entire hedging instrument, such as 50 per cent of the nominal amount, may be designated as the hedging instrument in a hedging relationship. However, a hedging instrument may not be designated for a part of its change in fair value that results from only a portion of the time period during which the hedging instrument remains outstanding.

## Hedged items

A hedged item can be a recognised asset or liability, an unrecognised firm commitment, a forecast transaction or a net investment in a foreign operation. The hedged item can be:

(a) a single item; or

(b) a group of items.

A hedged item can also be a component of such an item or group of items. The hedged item must be reliably measurable.

If a hedged item is a forecast transaction (or a component thereof), that transaction must be highly probable.

An aggregated exposure that is a combination of an exposure that could qualify as a hedged item and a derivative may be designated as a hedged item. This includes a forecast transaction of an aggregated exposure (i.e. uncommitted but anticipated future transactions that would give rise to an exposure and a derivative) if that aggregated exposure is highly probable and, once it has occurred and is therefore no longer forecast, is eligible as a hedged item.

For hedge accounting purposes, only assets, liabilities, firm commitments or highly probable forecast transactions with a party external to the reporting entity can be designated as hedged items. Hedge accounting can be applied to transactions between entities in the same group only in the individual or separate financial statements of those entities and not in the consolidated financial statements of the group, except for the consolidated financial statements of an investment entity, as defined in IFRS 10 *Consolidated Financial Statements*, where transactions between an investment entity and its subsidiaries measured at fair value through profit or loss will not be eliminated in the consolidated financial statements.

## Accounting for qualifying hedging relationships

An entity applies hedge accounting to hedging relationships that meet the qualifying criteria (which include the entity's decision to designate the hedging relationship).

There are three types of hedging relationships:

(a) **fair value hedge**: a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or a component of any such item, that is attributable to a particular risk and could affect profit or loss.

(b) **cash flow hedge**: a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability (such as all or some future interest payments on variable-rate debt) or a highly probable forecast transaction, and could affect profit or loss.

(c) **hedge of a net investment in a foreign operation** as defined in IAS 21 *The effects of changes in Foreign Exchange Rates*.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, an entity shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

An entity shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is part of, and consistent with, the entity's documented risk management objective.

Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

## Fair value hedges

As long as a fair value hedge meets the qualifying criteria, the hedging relationship shall be accounted for as follows:

- (a) the gain or loss on the hedging instrument shall be recognised in profit or loss (or other comprehensive income, if the hedging instrument hedges an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income).
- (b) the hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item (if applicable) and be recognised in profit or loss but
  - (i) If the hedged item is a financial asset (or a component thereof) that is measured at fair value through other comprehensive income, the hedging gain or loss on the hedged item shall be recognised in profit or loss,
  - (ii) if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income, those amounts shall remain in other comprehensive income,
  - (iii) when a hedged item is an unrecognised firm commitment (or a component thereof), the cumulative change in the fair value of the hedged item subsequent to its designation is recognised as an asset or a liability with a corresponding gain or loss recognised in profit or loss.

## Cash flow hedges

As long as a cash flow hedge meets the qualifying criteria, the hedging relationship shall be accounted for as follows:

- (a) the separate component of equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):
  - (i) the cumulative gain or loss on the hedging instrument from inception of the hedge; and
  - (ii) the cumulative change in fair value (present value) of the hedged item (i.e. the present value of the cumulative change in the hedged expected future cash flows) from inception of the hedge.
- (b) the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (i.e. the portion that is offset by the change in the cash flow hedge reserve calculated in accordance with (a)) shall be recognised in other comprehensive income.
- (c) any remaining gain or loss on the hedging instrument (or any gain or loss required to balance the change in the cash flow hedge reserve calculated in accordance with (a)) is hedge ineffectiveness that shall be recognised in profit or loss.
- (d) the amount that has been accumulated in the cash flow hedge reserve in accordance with (a) shall be accounted for as follows:
  - (i) if a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the entity shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment and hence it does not affect other comprehensive income.

(ii) for cash flow hedge, other than those covered by (i), that amount shall be reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss (for example, in the periods that interest income or interest expense is recognised or when a forecast sale occurs).
(iii) however, if that amount is a loss and an entity expects that all or a portion of that loss will not be recovered in one or more future periods, it shall immediately reclassify the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

### Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment shall be accounted for similarly to cash flow hedges:

(a) the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised in other comprehensive income; and
(b) the ineffective portion shall be recognised in profit or loss.

The cumulative gain or loss on the hedging instrument relating to the effective portion of the hedge that has been accumulated in the foreign currency translation reserve shall be reclassified from equity to profit or loss as a reclassification adjustment on the disposal or partial disposal of the foreign operation.

### Hedges of a group of items

A group of items (including a group of items that constitute a net position is an eligible hedged item only if:

(a) it consists of items (including components of items) that are, individually, eligible hedged items;
(b) the items in the group are managed together on a group basis for risk management purposes; and
(c) in the case of a cash flow hedge of a group of items whose variabilities in cash flows are not expected to be approximately proportional to the overall variability in cash flows of the group so that offsetting risk positions arise:
    (i) it is a hedge of foreign currency risk; and
    (ii) the designation of that net position specifies the reporting period in which the forecast transactions are expected to affect profit or loss, as well as their nature and volume.

### Option to designate a credit exposure as measured at fair value through profit or loss

If an entity uses a credit derivative that is measured at fair value through profit or loss to manage the credit risk of all, or a part of, a financial instrument (credit exposure) it may designate that financial instrument to the extent that it is so managed (i.e. all or a proportion of it) as measured at fair value through profit or loss if:

(a) the name of the credit exposure (for example, the borrower, or the holder of a loan commitment) matches the reference entity of the credit derivative ('name matching'); and
(b) the seniority of the financial instrument matches that of the instruments that can be delivered in accordance with the credit derivative.

An entity may make this designation irrespective of whether the financial instrument that is managed for credit risk is within the scope of this Standard (for example, an entity may designate loan commitments that are outside the scope of this Standard). The entity may designate that financial instrument at, or subsequent to, initial recognition, or while it is unrecognised. The entity shall document the designation concurrently.

## Disclosure requirements

The disclosure requirements for IFRS 9 are contained within IFRS 7 *Financial Instruments: Disclosures.*