

IFRS 9

Financial Instruments

Overview

Nairobi, Kenya
Darrel Scott, IASB Member

The views expressed in this presentation are those of the presenter,
not necessarily those of the International Accounting Standards Board or IFRS Foundation.

Copyright © IFRS Foundation. All rights reserved

Classification and measurement

Financial Assets *Classification*

3

Test	Accounting	Option
Cash flow characteristics	Amortised cost	FV for accounting mismatch
Business Model	FV OCI	
Instruments which fail either test	FV P&L	Equities through OCI

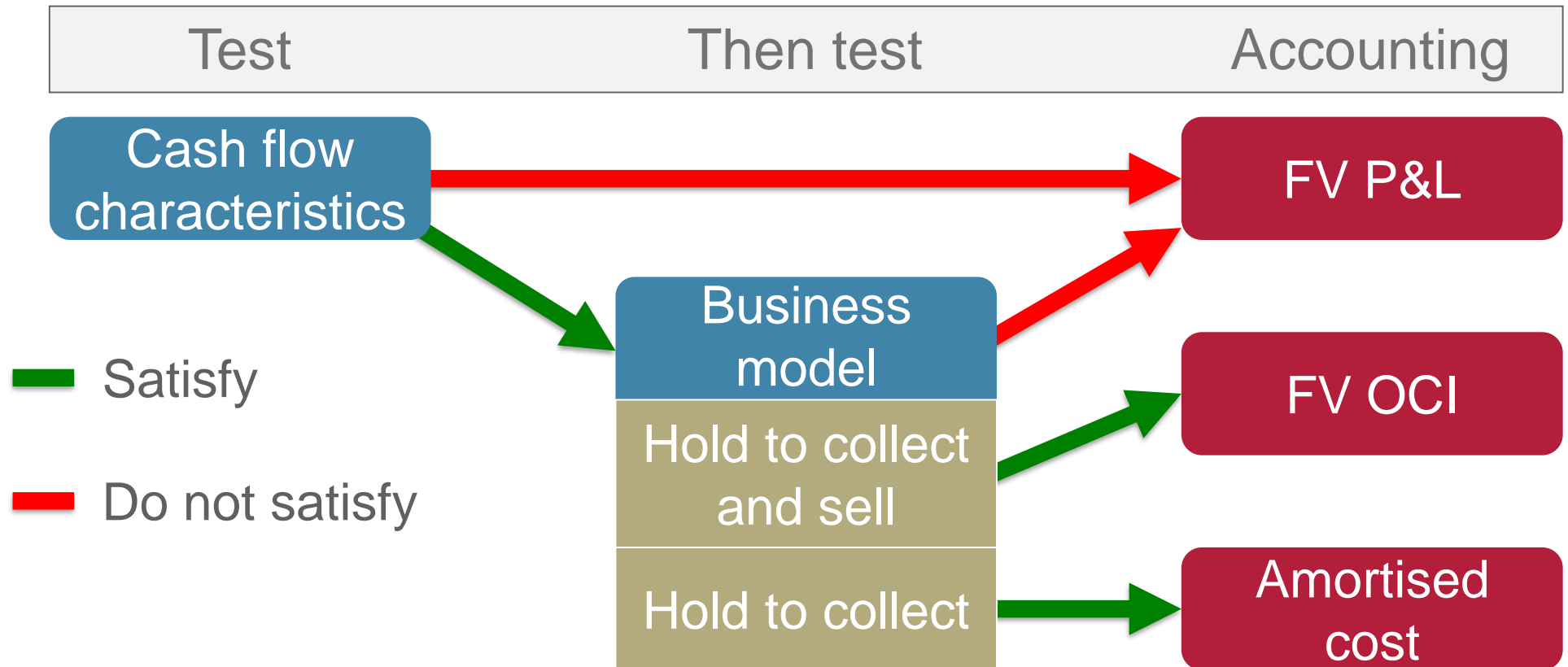
‡ Reclassification required if business model changes

* Same impairment model for amortised cost and FVOCI

Financial Assets

Classification process

4



Financial Assets

Fair Value Option (FVO)

8

Option	Scope	Restrictions
--------	-------	--------------

FV for
accounting
mismatch

Accounting
mismatch

Irrevocable

Equities
through OCI

Not held for
trading

Irrevocable

No recycling

Financial Liabilities

Classification

9

Test

Accounting

Option

Held for
trading

FV P&L

All other
financial
liabilities

Amortised
cost

FV for
accounting
mismatch

- **What is** 'own credit'?
 - fair value changes in liability arising from changes in the liability's credit quality
- How is it measured?
 - often measured as **change in margin over a benchmark** interest rate
- What is the **concern**?
 - gain when credit quality deteriorates, loss when credit quality improves
 - reporting such gains and losses is not considered useful

Financial Liabilities

FVO and own credit

11

Financial Statements (IFRS 9)	
Balance Sheet	Comprehensive Income
Liability: All changes including own credit	P&L: all changes except own credit OCI: changes in own credit

- Otherwise, P&L gain when 'own credit' deteriorates, loss when it improves
- Limited amendments propose allowing the 'own credit' requirements to be applied before the rest of IFRS 9
- Required by IFRS 9 for liabilities under the FVO

Main areas of disclosure for classification & measurement

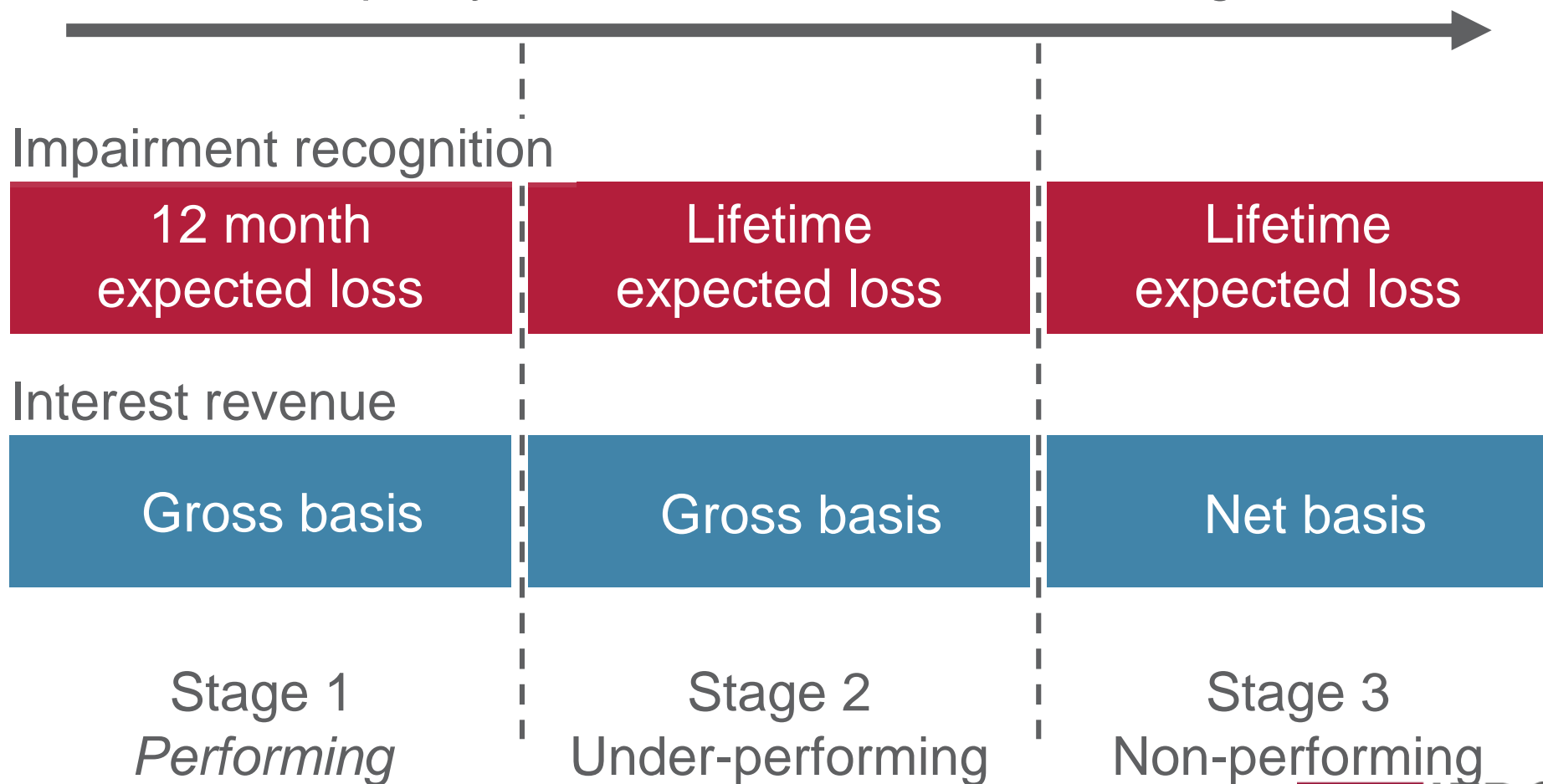
- Effect of transition from IAS 39 to IFRS 9
- Derecognised financial assets measured at amortised cost—gains/losses and the reasons for derecognition.
- Reclassification of financial assets—change in business model and qualitative description of its effects
- OCI presentation election for equity investments—reasons for using election, information about designated investments

Impairment

Deterioration model

14

Credit quality deterioration since initial recognition



- Use **best information available** without undue cost and effort
- Information **to consider** includes:
 - Borrower specific
 - Macro-economic
 - Internal default rates and probabilities of default
 - External pricing
 - Credit ratings
 - Delinquencies
- **Rebuttable presumption** that assets 30 days past due have deteriorated

- **Change in probability of default** occurring (not change in expected losses)
- Compared with **initial recognition**
- Maturity matters
- **Operational simplifications:**
 - Recognise 12-month expected credit losses if **investment grade**
 - **Rebuttable presumption:** significant deterioration when payments are more than 30 days past due
 - Don't need to assess for trade and lease receivables

- Impairment loss measured as **difference between carrying value and Present Value** of expected future cash flows
- **Probability weighted** outcome
 - Need not consider every possible outcome
 - Must consider (at least) possibility that a default will occur and that a default will not occur
- **Time value** of money
 - Reasonable rate between (and including) risk-free rate and effective interest rate

- Apply **general deterioration** model
- Instruments that create a **present legal obligation** to extend credit
- Maximum contractual period exposed to credit risk
 - Except where **behavioural life** prevails
- Estimate usage behaviour over the lifetime
- Expected **losses presented as liability**

Hedge accounting

- Greater **alignment with risk** management including:
 - Eligibility criteria based on more **economic assessment** of hedging relationship
 - Expansion of **risk components for non-financial** items
 - Introduction of '**costs of hedging**'
 - Ability to **hedge aggregated exposures** (combination of derivative and non-derivative)
- Enhanced disclosures
- **Not really for banks**

Impairment Transition Resource Group and Implementation of IFRS 9

- Four meetings held during 2014 and 2015
- Only one issue raised with Board:
 - the staff did not propose further action on this issue
 - Board noted that requirements of IFRS 9 were clear
- No further meetings have been scheduled:
 - need to balance implementation support with creating uncertainty that could delay implementation; however
 - group remains and meetings will be convened if needed
- All ITG agenda papers and meeting summaries can be found on IASB web page

Keep up to date



@IFRSFoundation



IFRS-Foundation, IASB



go.ifrs.org/email-alerts



IFRS Foundation

Comment on our work



go.ifrs.org/comment

Join the organisation, and help shape the future of financial reporting



go.ifrs.org/careers

Questions or comments?

45

