

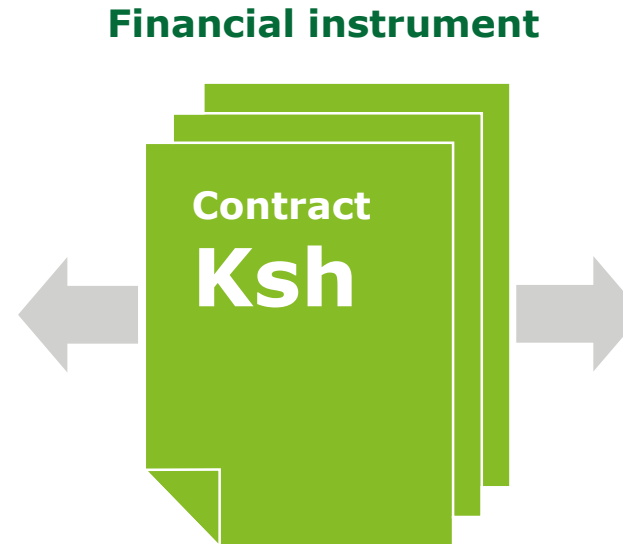
Classification and Measurement

Overview – What is a financial instrument?

A contract that establishes a financial asset for one party and a financial liability or equity instrument for the other party

Financial asset

- Investments in equity instruments
- Investments in debt instruments e.g. Government securities
- Trade receivables
- Cash and cash equivalents
- Derivative assets
- Interests in subsidiaries, associates and joint ventures accounted for under IFRS 9, and
- Deferred or contingent consideration receivable in a business combination (seller)



Financial liability

A liability that is an obligation to:

- Deliver cash or another financial asset
- Right to exchange financial instruments with another party under unfavourable conditions
- Settle by delivering a variable number of the entity's own instruments

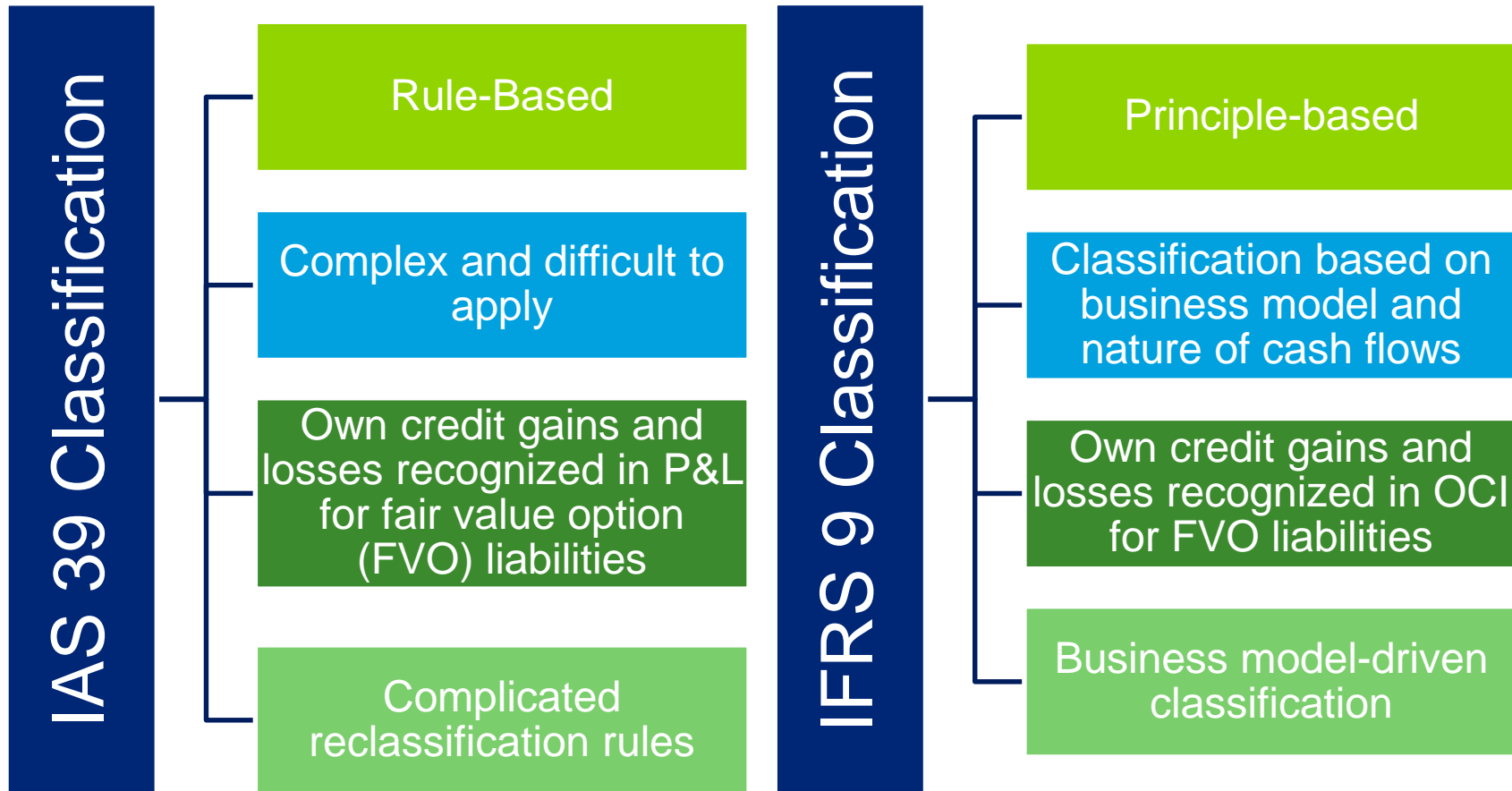
Or

Equity instrument

A contract that represents a residual interest in an entity's assets

All organizations have financial instruments of some form.

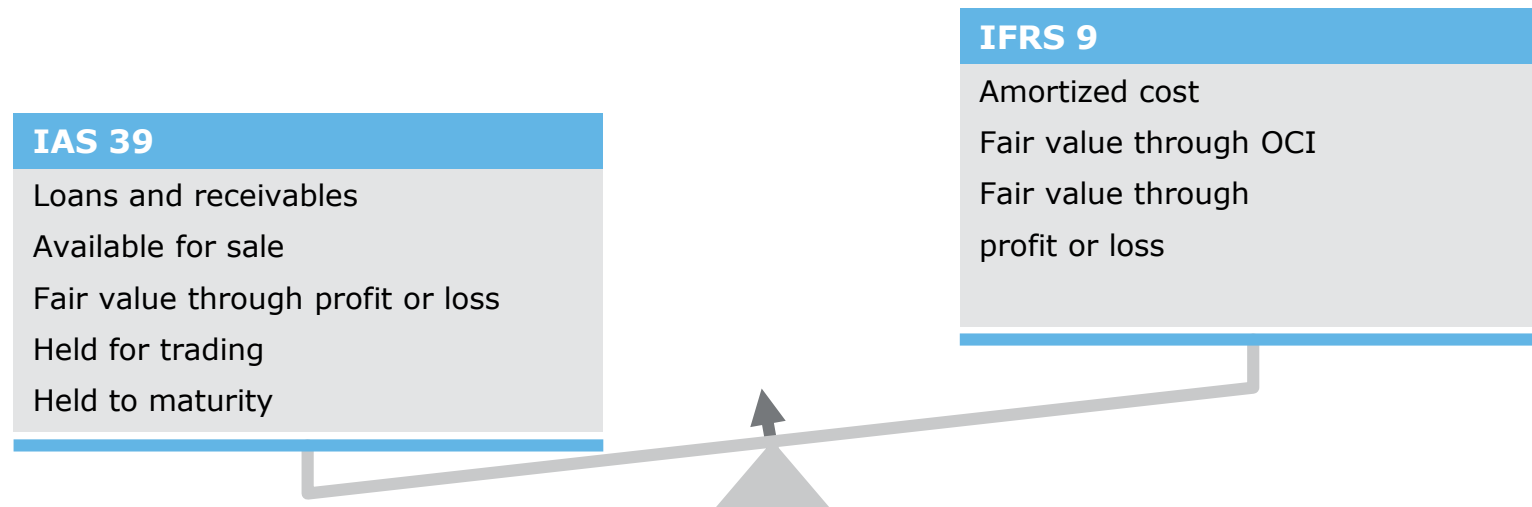
Classification - What are the differences?



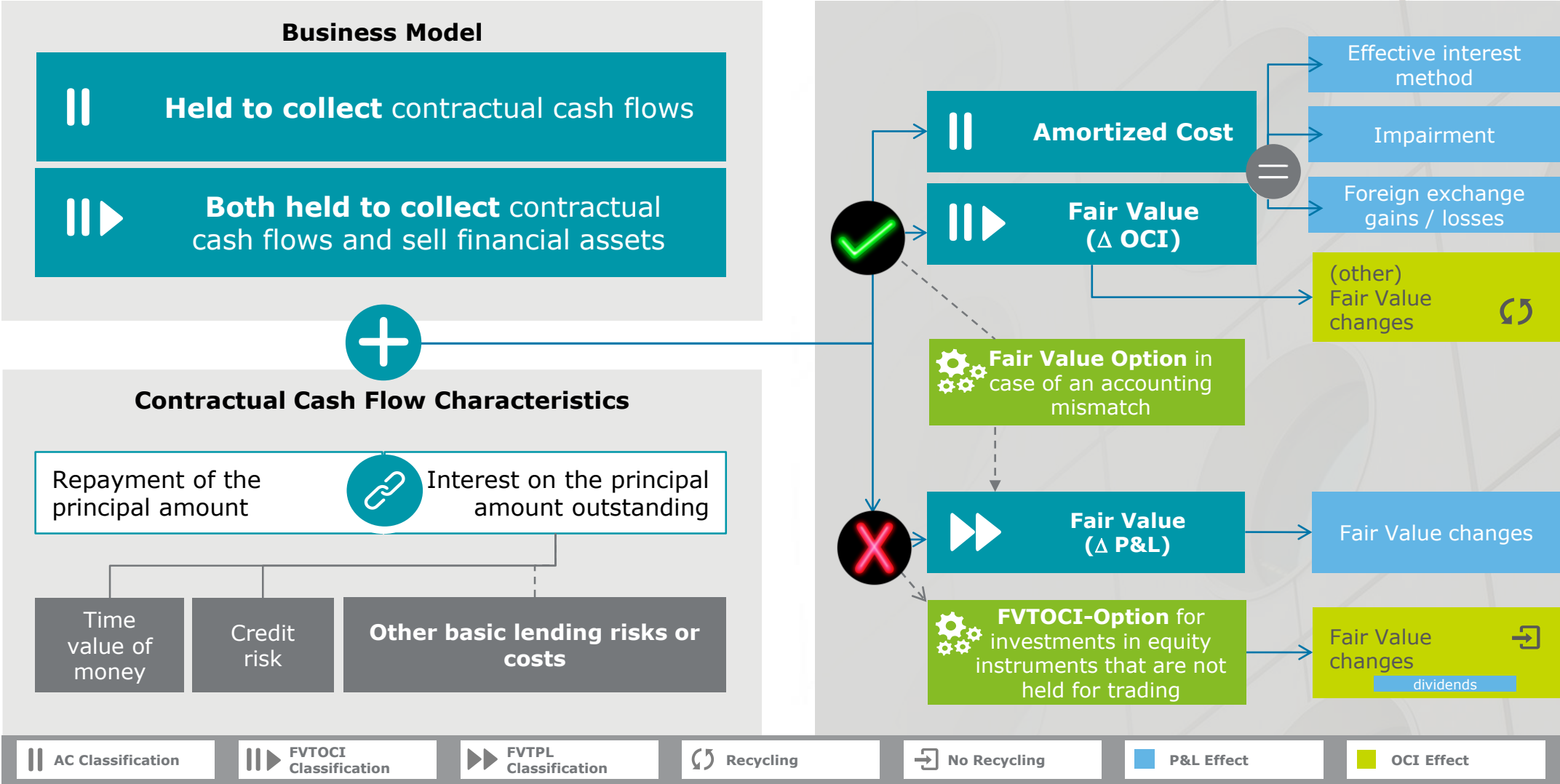
Classification of financial instruments

Financial assets – Summary of changes

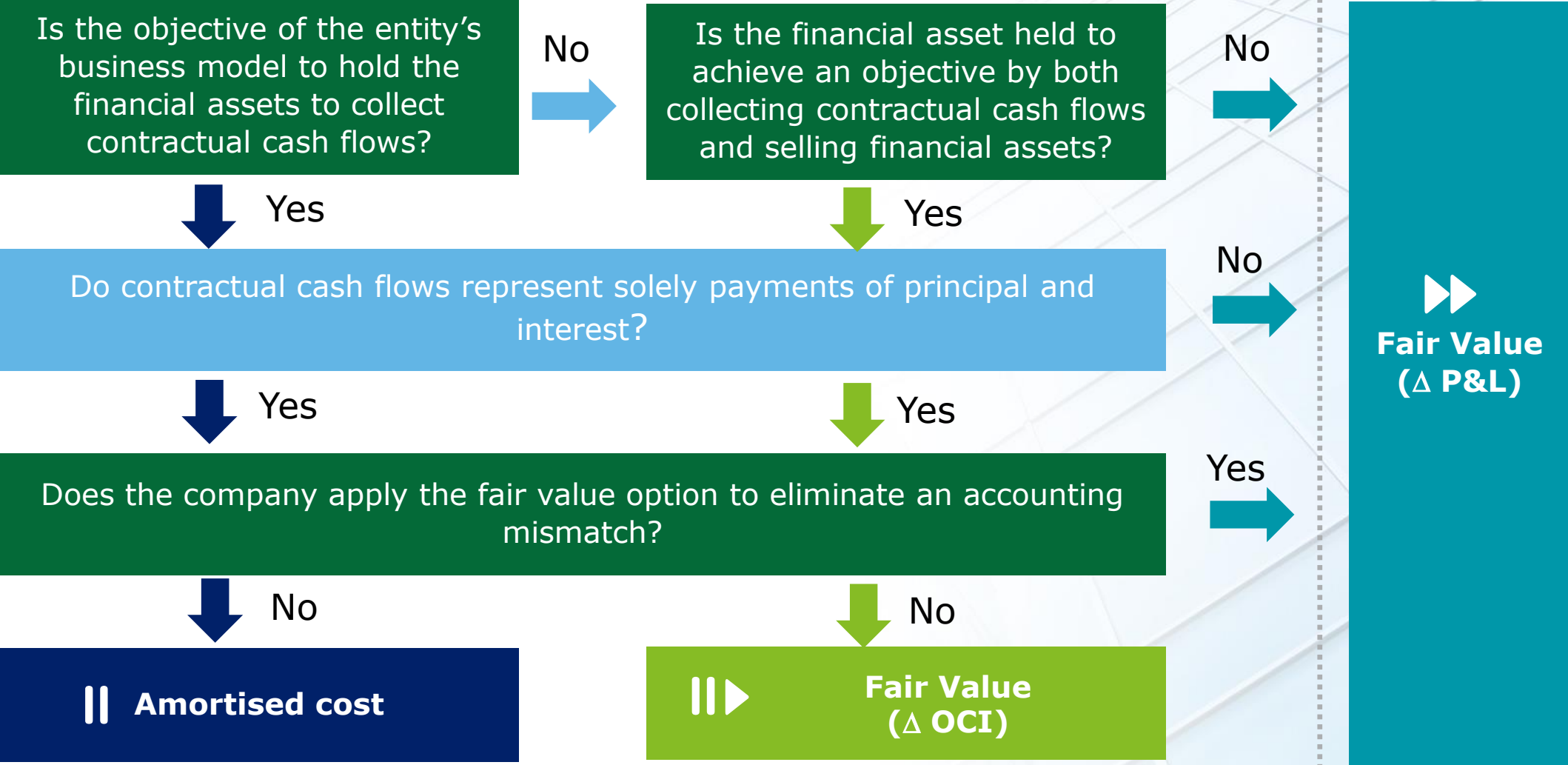
- IFRS 9 uses a principles based approach to classify financial assets.
- IFRS 9 has three measurement categories instead of five.
- All financial assets must be classified into one of three categories based on a two step test.
 - New optional irrevocable designations available.
- No significant changes to the classification of financial liabilities.
 - New requirement for presentation of gains and losses associated with 'own credit risk' related to financial liabilities designated as FVTPL.



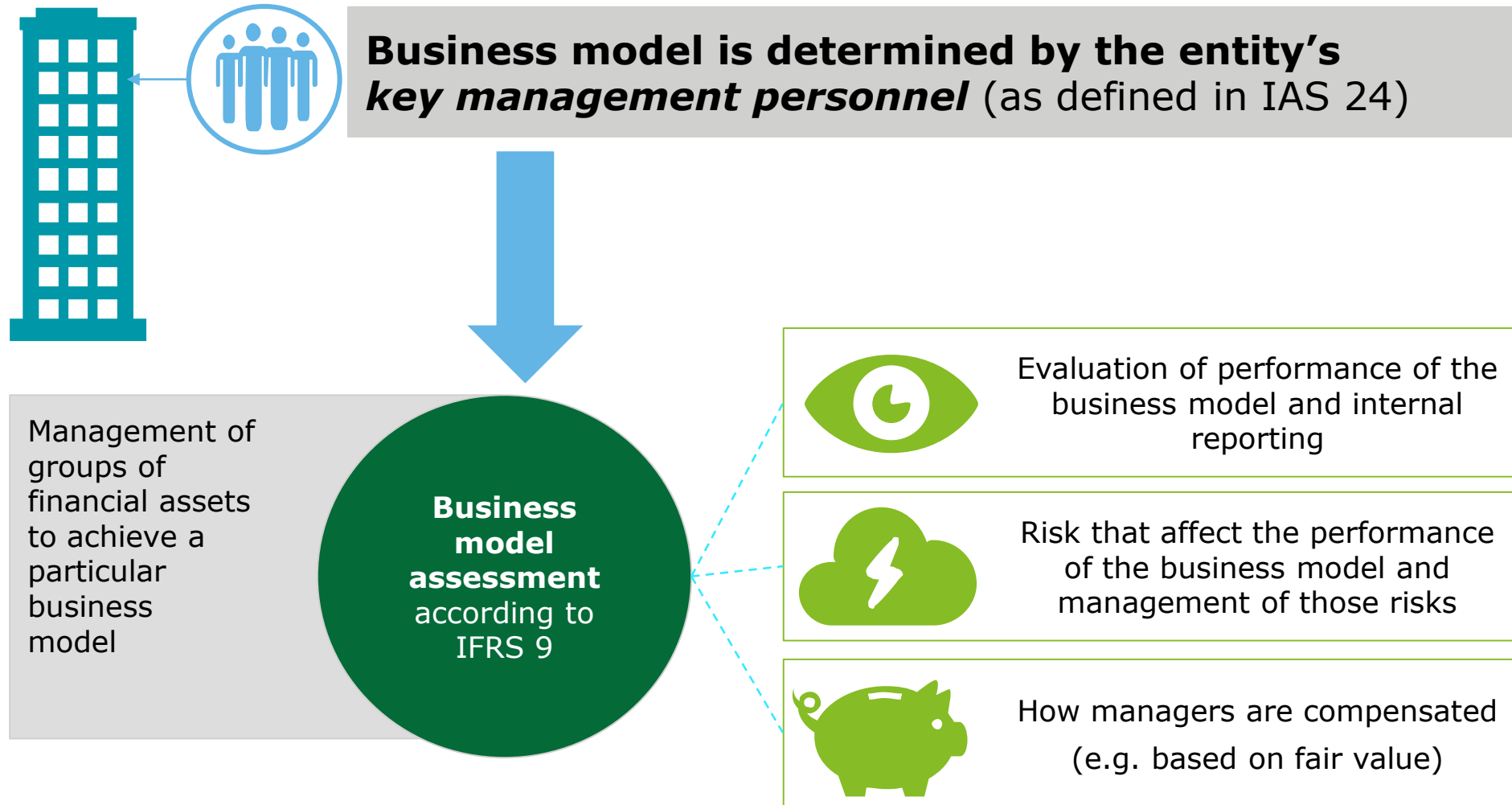
Classification & Measurement of Financial Assets



Classification & Measurement – Financial assets decision tree



Business Model



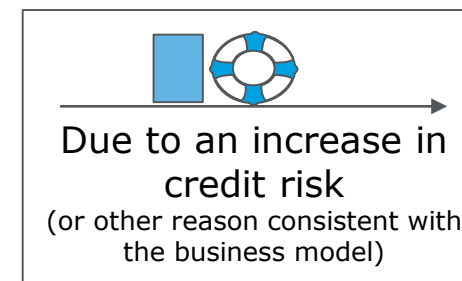
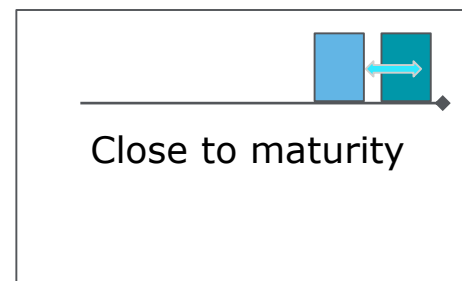
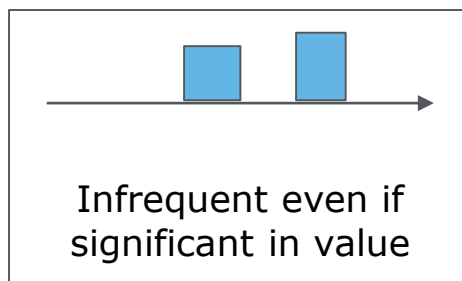
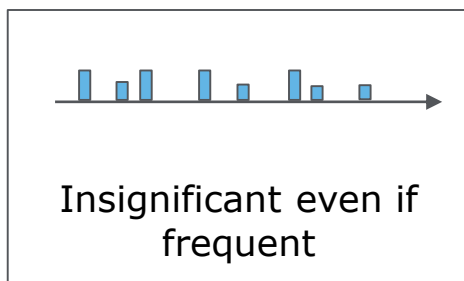
Business Model “Held to collect”



Objective of the business model is
to hold assets in order to collect contractual cash flows



Sales are not an integral part of the AC business model but may be consistent with it if:



Regardless of whether caused internally or externally

Consequences of sales that are inconsistent with an objective to hold financial assets in order to collect contractual cash flows:



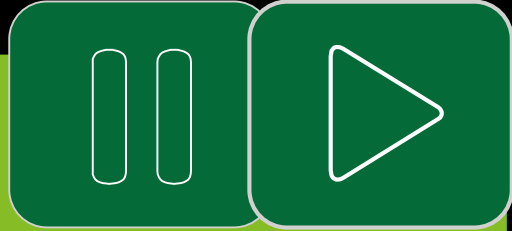
No reclassification without a change in business model of the existing financial assets

Not an error according to IAS 8



Business model for new financial instruments may have changed

Business Model “Held to collect and sell”



Objective is achieved by both **collecting contractual cash flows and selling financial assets**

Both collecting contractual cash flows and selling financial assets **are integral** to achieving the objective of the business model

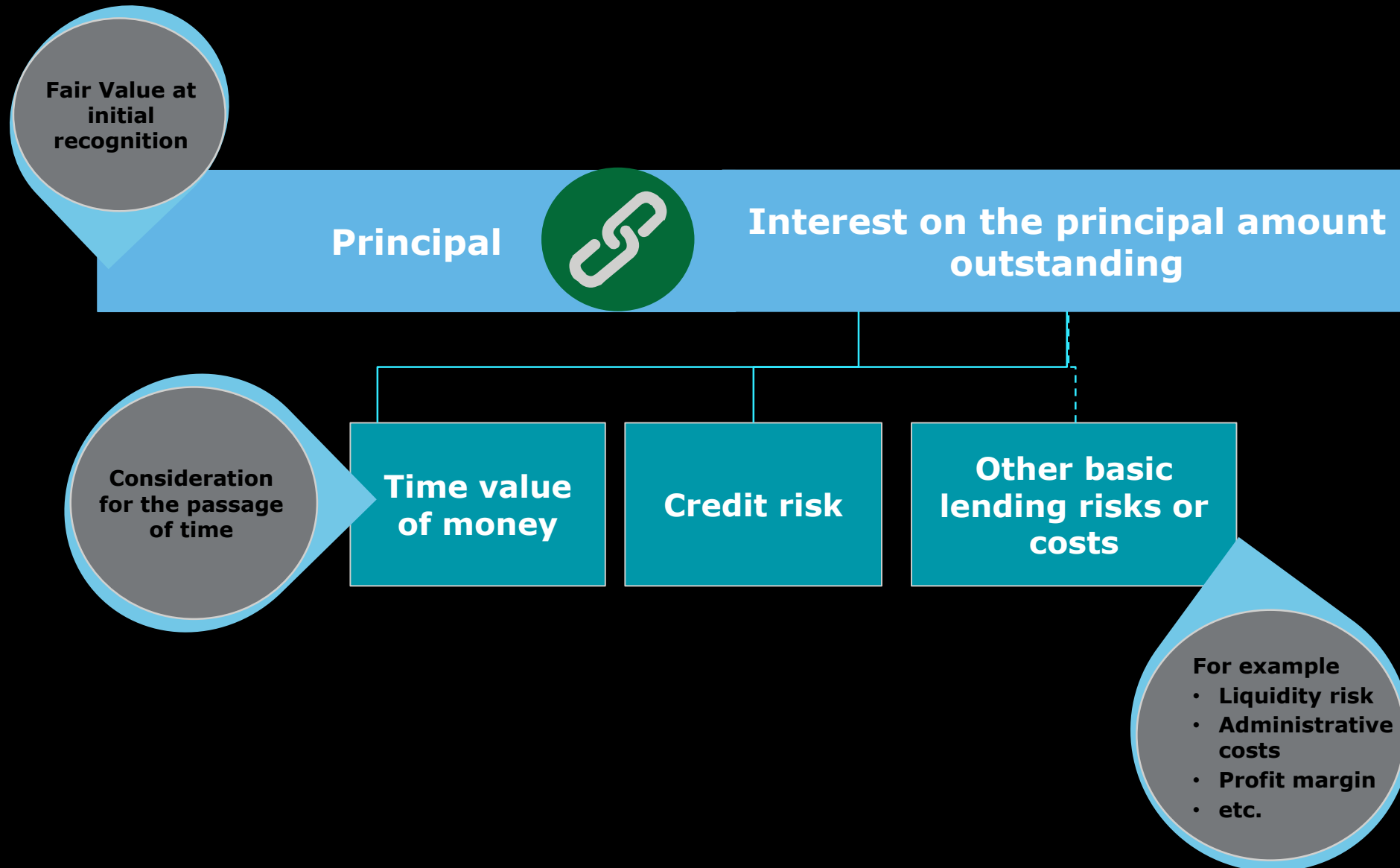
No threshold for frequency, or value of sales that must occur

Typically involves greater frequency and value of sales compared to a “Held to collect” business model

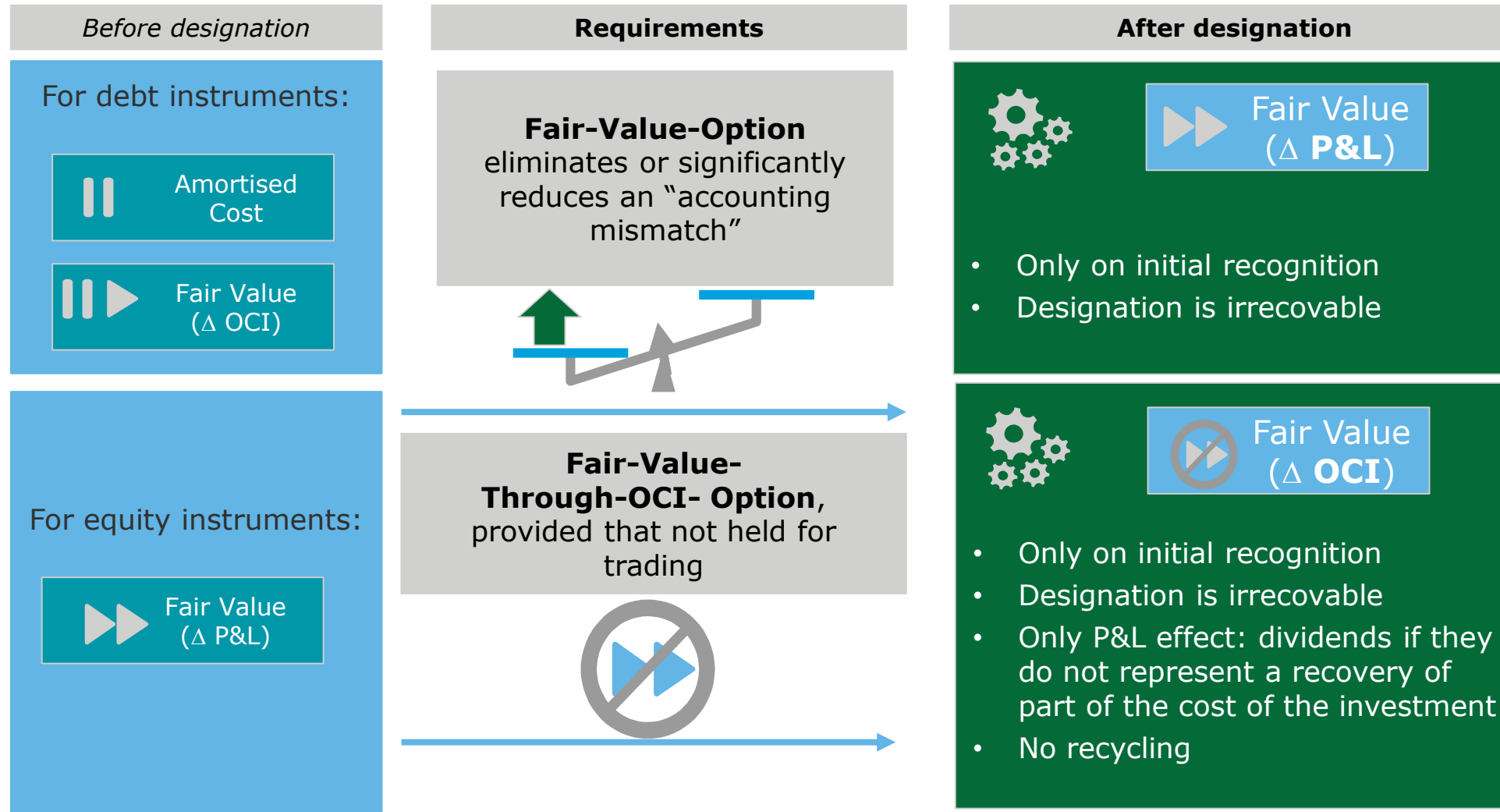
Example liquidity portfolio

Frequent sales to actively manage the return on the portfolio which consists of collecting contractual payments as well as gains and losses from sales





Contractual Cash Flow Characteristics



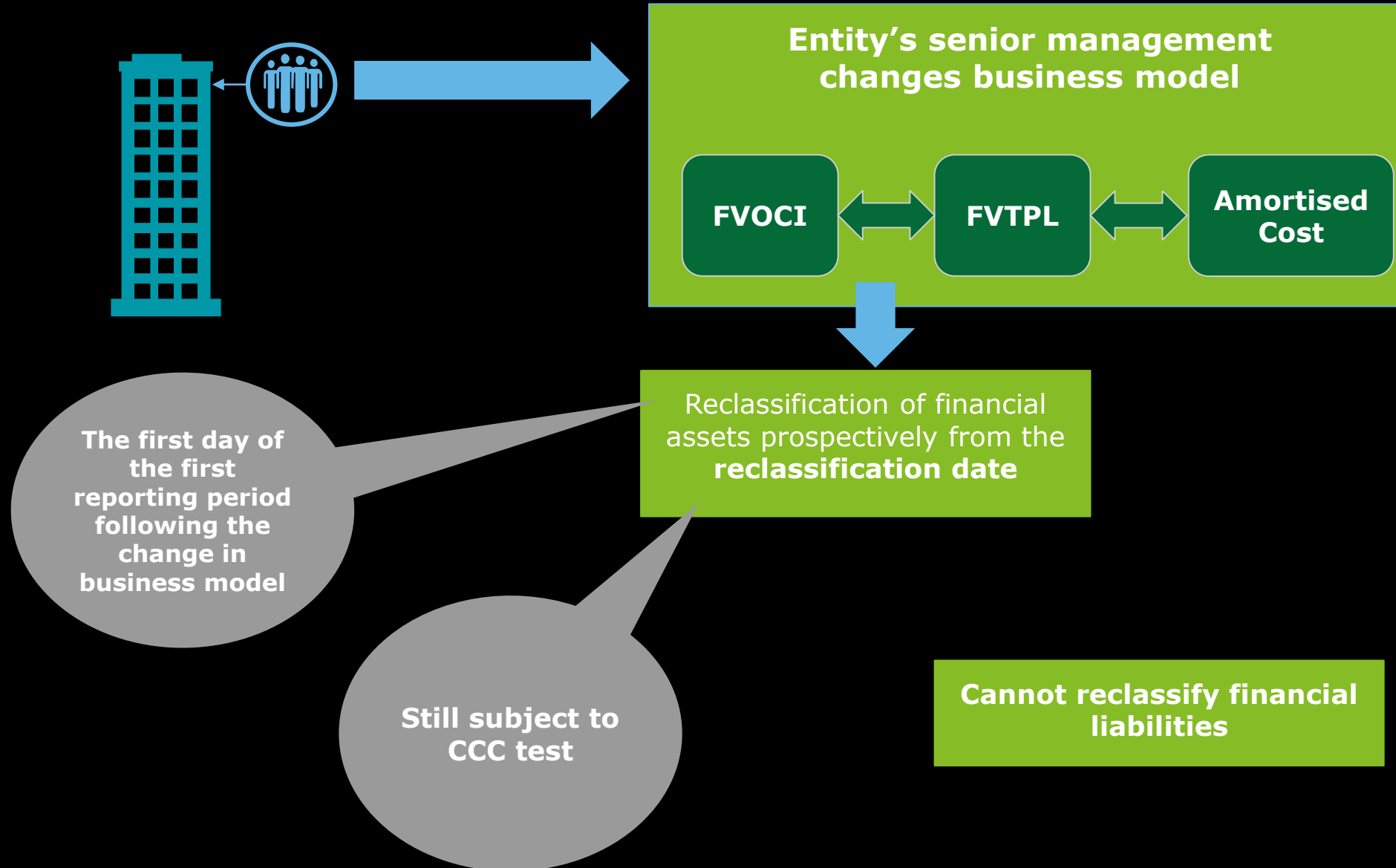
Options for Financial Assets



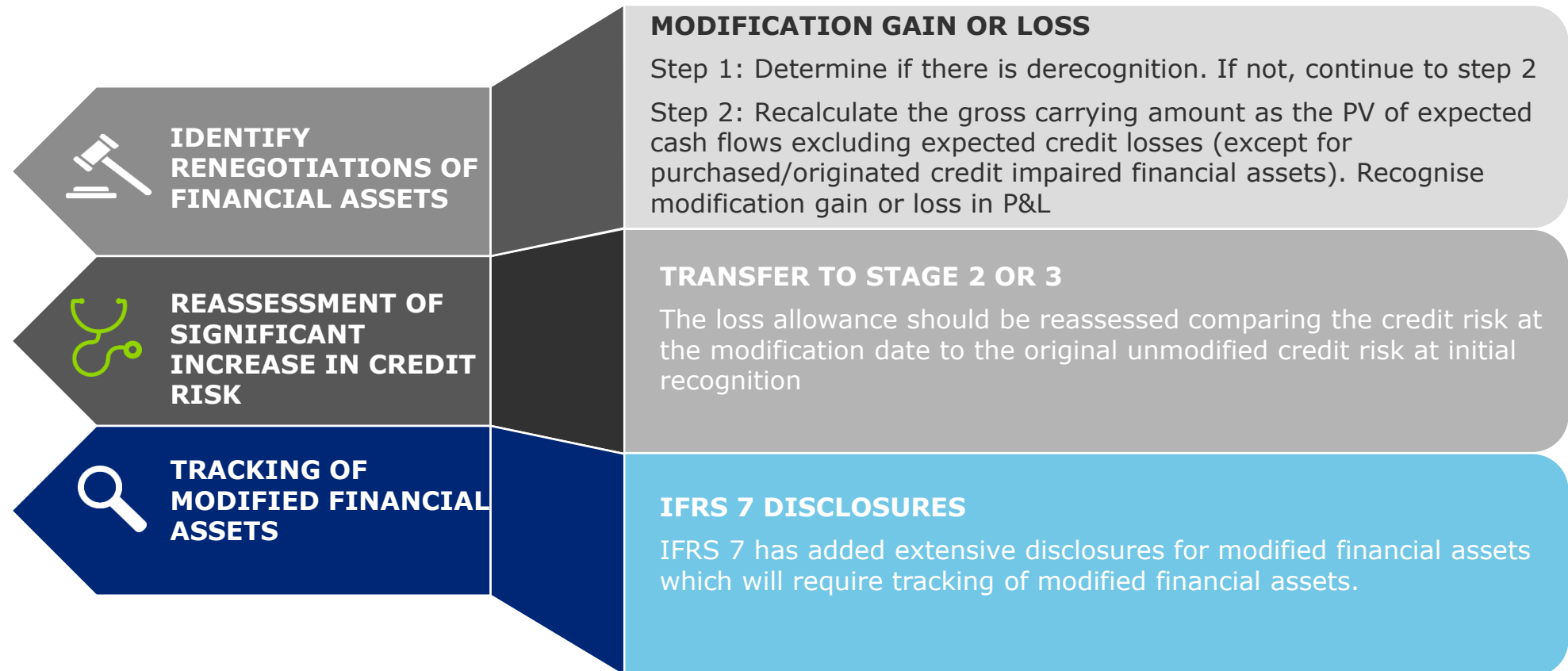
Measurement of Financial Assets

	Fair Value measurement (IFRS 13)			
	plus transactions costs	plus transactions costs	plus transactions costs	plus transactions costs
Initial recognition				
Subsequent measurement	 Amortised cost	 FVOCI - Debt	 Fair value	 FVOCI - Equity
Statement of financial position	Amortised cost	Fair value	Fair value	Fair value
P&L	Effective interest method, impairment & foreign exchange differences	Effective interest method, impairment & foreign exchange differences	(all) Fair value changes	Dividends
OCI	---	(other) Fair value changes	---	(all) Fair value changes
Recycling	---	Yes	---	No

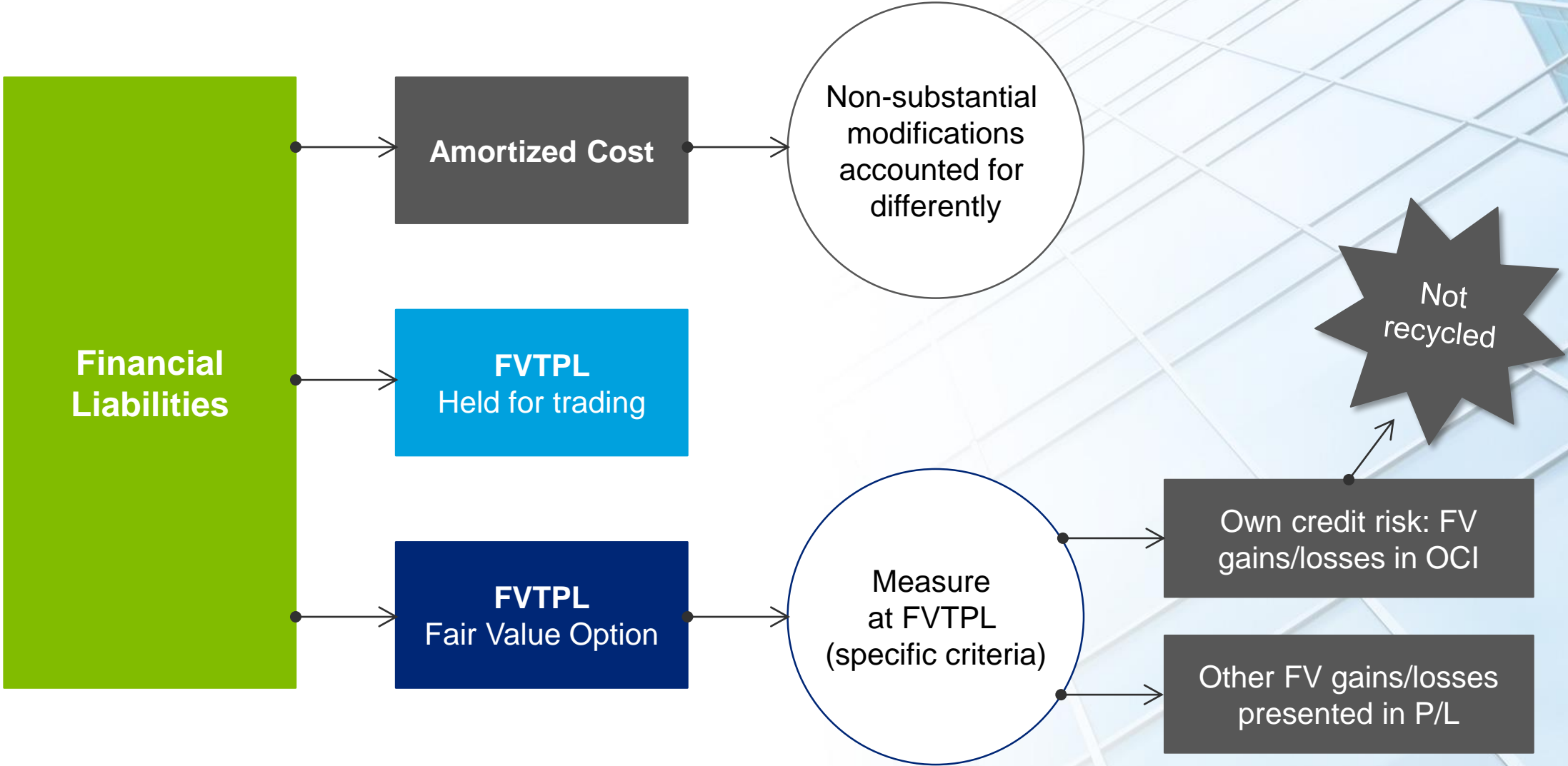
Reclassification of Financial Assets



Modification of financial assets

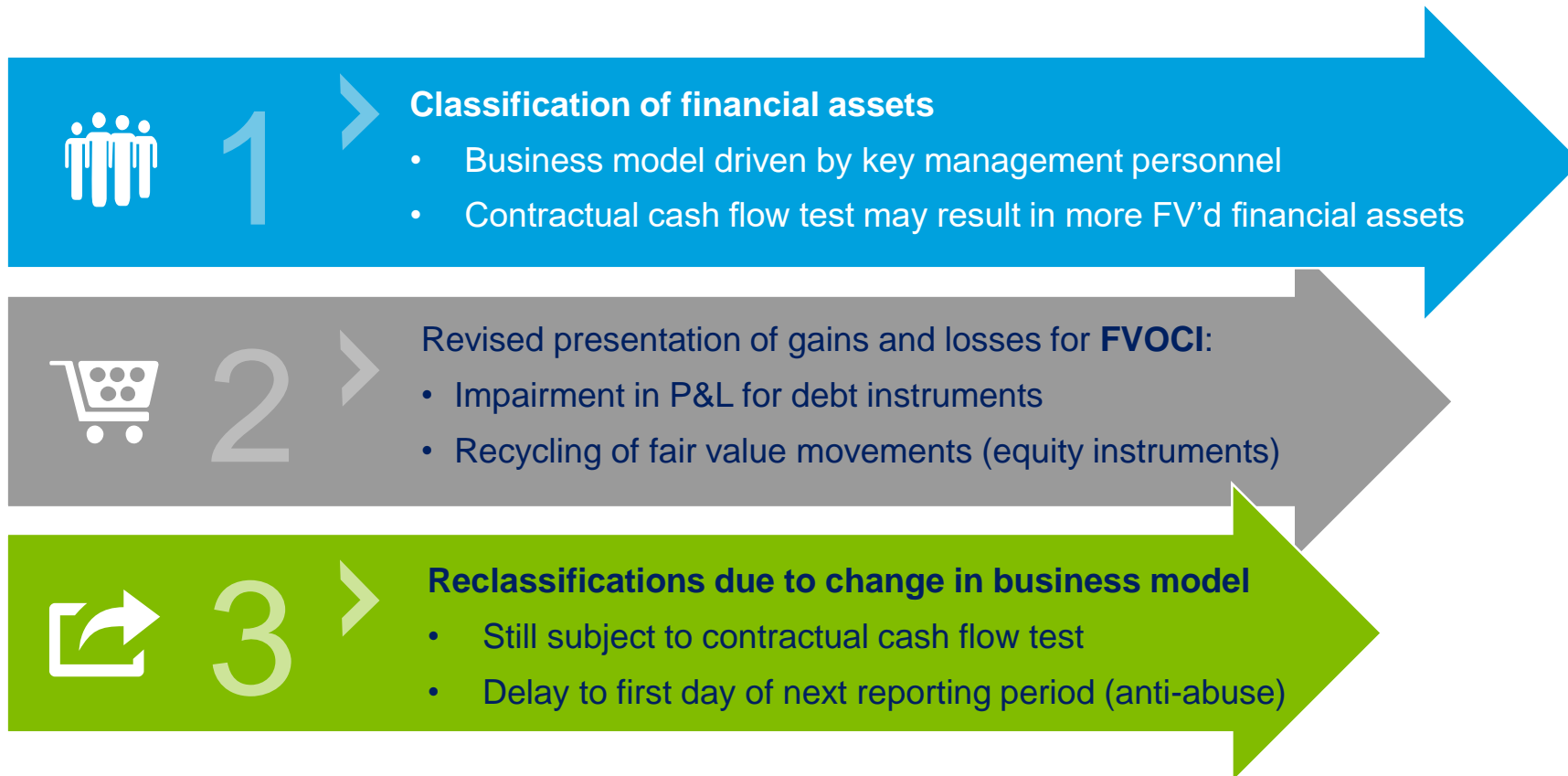


Classification & Measurement - Financial Liabilities



Talking Points

Classification and Measurement of Financial Assets



Different reclassification scenarios and their accounting consequences:

Original category	New category	Accounting impact
Amortized cost	FVPL	Fair value is measured at reclassification date. Difference from carrying amount should be recognized in profit or loss.
FVPL	Amortized Cost	Fair value at the reclassification date becomes its new gross carrying amount.
Amortized cost	FVOCI	Fair value is measured at reclassification date. Difference from amortized cost should be recognized in OCI. Effective interest rate is not adjusted as a result of the reclassification.
FVOCI	Amortized cost	Fair value at the reclassification date becomes its new amortized cost carrying amount. Cumulative gain or loss in OCI is adjusted against the fair value of the financial asset at reclassification date.
FVPL	FVOCI	Fair value at reclassification date becomes its new carrying amount.
FVOCI	FVPL	Fair value at reclassification date becomes carrying amount. Cumulative gain or loss on OCI is reclassified to profit or loss at

1

Trade Receivables

How will this instrument be classified and measured under IFRS 9?



Amortised cost

The objective of the entity's business model to hold the financial assets to collect contractual cash flows

- Entity A has sold goods and services and recognises trade receivables
- The payment terms are between 10 and 30 days
- Entity A does not sell the receivables, i.e. entity A does not enter into factoring or other financing arrangements

2

Corporate Bond, fixed interest (asset)

How will this instrument be classified and measured under IFRS 9?



Amortised cost

The objective of the entity's business model to hold the financial assets to collect contractual cash flows

The corporate bond

- has a duration of 4 years and
- is repayable at the end of the 4 years period at par
- with no prepayment or extension option
- interest is payable annually in arrears at a fixed rate of 7%
- There are no other features in the contractual terms, which result in any variability in the contractual cash flows
- The entity intends to hold the bond until maturity

3

Certain debt securities

How will this instrument be classified and measured under IFRS 9?



Fair Value
(□ OCI)

Certain debt securities are held by an entity in separate portfolios to meet everyday liquidity needs. The entity's management seeks to minimize the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets.

The financial asset or group of financial assets is not held within the hold to collect or the hold to collect and sell business model, then it should be measured at FVPL.

4

Government Bond (asset)

How will this instrument be classified and measured under IFRS 9?

Entity A has purchased a Government bond that

The entity holds in separate portfolios and manage them with an objective of realizing cash flows through sale. The entity primarily focuses on fair value information and uses that information to assess the securities' performance and to make decisions



Fair Value
(Δ P&L)

The financial asset or group of financial assets is not held within the hold to collect or the hold to collect and sell business model, then it should be measured at FVPL.



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The logo for "LIGHT THE WAY", with "LIGHT" in a large, bold, green, sans-serif font and "THE WAY" in a smaller, bold, white, sans-serif font below it.

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