Appendix A Defined terms

IFRS 9

Financial Instruments

This appendix is an integral part of the Standard.

12-month expected credit losses	The portion of **lifetime expected credit losses** that represent the **expected credit losses** that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
amortised cost of a financial asset or financial liability	The amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the **effective interest method** of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any **loss allowance**.
contract assets	Those rights that IFRS 15 *Revenue from Contracts with Customers* specifies are accounted for in accordance with this Standard for the purposes of recognising and measuring impairment gains or losses.
credit-impaired financial asset	A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events: (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or **past due** event; (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; (e) the disappearance of an active market for that financial asset because of financial difficulties; or (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred **credit losses**. It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired.
credit loss	The difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (ie all cash shortfalls), discounted at the original **effective interest rate** (or **credit-**

adjusted effective interest rate for **purchased or originated credit-impaired financial assets**). An entity shall estimate cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. The cash flows that are considered shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. There is a presumption that the expected life of a financial instrument can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the entity shall use the remaining contractual term of the financial instrument.

credit-adjusted effective interest rate The rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the **amortised cost of a financial asset** that is a **purchased or originated credit-impaired financial asset**. When calculating the credit-adjusted effective interest rate, an entity shall estimate the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and **expected credit losses**. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see paragraphs B5.4.1–B5.4.3), **transaction costs**, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the remaining life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

derecognition The removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

derivative A financial instrument or other contract within the scope of this Standard with all three of the following characteristics.

(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, 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 (sometimes called the 'underlying').

(b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

(c) it is settled at a future date.

dividends Distributions of profits to holders of equity instruments in proportion to their holdings of a particular class of capital.

effective interest method The method that is used in the calculation of the **amortised cost of a financial asset or a financial liability** and in the allocation and recognition of the interest revenue or interest expense in profit or loss over the relevant period.

effective interest rate The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the **gross carrying amount of a financial asset** or to the **amortised cost of a financial liability**. When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the **expected credit losses**. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see paragraphs B5.4.1–B5.4.3), **transaction costs**, and all other

	premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).
expected credit losses	The weighted average of **credit losses** with the respective risks of a default occurring as the weights.
financial guarantee contract	A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.
financial liability at fair value through profit or loss	A financial liability that meets one of the following conditions: (a) it meets the definition of **held for trading**. (b) upon initial recognition it is designated by the entity as at fair value through profit or loss in accordance with paragraph 4.2.2 or 4.3.5. (c) it is designated either upon initial recognition or subsequently as at fair value through profit or loss in accordance with paragraph 6.7.1.
firm commitment	A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.
forecast transaction	An uncommitted but anticipated future transaction.
gross carrying amount of a financial asset	The **amortised cost of a financial asset**, before adjusting for any **loss allowance**.
hedge ratio	The relationship between the quantity of the hedging instrument and the quantity of the hedged item in terms of their relative weighting.
held for trading	A financial asset or financial liability that: (a) is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (b) on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (c) is a **derivative** (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).
impairment gain or loss	Gains or losses that are recognised in profit or loss in accordance with paragraph 5.5.8 and that arise from applying the impairment requirements in Section 5.5.

lifetime expected credit losses	The **expected credit losses** that result from all possible default events over the expected life of a financial instrument.
loss allowance	The allowance for **expected credit losses** on financial assets measured in accordance with paragraph 4.1.2, lease receivables and **contract assets**, the accumulated impairment amount for financial assets measured in accordance with paragraph 4.1.2A and the provision for expected credit losses on loan commitments and **financial guarantee contracts**.
modification gain or loss	The amount arising from adjusting the **gross carrying amount of a financial asset** to reflect the renegotiated or modified contractual cash flows. The entity recalculates the gross carrying amount of a financial asset as the present value of the estimated future cash payments or receipts through the expected life of the renegotiated or modified financial asset that are discounted at the financial asset's original **effective interest rate** (or the original **credit-adjusted effective interest rate** for **purchased or originated credit-impaired financial assets**) or, when applicable, the revised **effective interest rate** calculated in accordance with paragraph 6.5.10. When estimating the expected cash flows of a financial asset, an entity shall consider all contractual terms of the financial asset (for example, prepayment, call and similar options) but shall not consider the **expected credit losses**, unless the financial asset is a **purchased or originated credit-impaired financial asset**, in which case an entity shall also consider the initial expected credit losses that were considered when calculating the original **credit-adjusted effective interest rate**.
past due	A financial asset is past due when a counterparty has failed to make a payment when that payment was contractually due.
purchased or originated credit-impaired financial asset	Purchased or originated financial asset(s) that are **credit-impaired** on initial recognition.
reclassification date	The first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.
regular way purchase or sale	A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.
transaction costs	Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see paragraph B5.4.8). An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

The following terms are defined in paragraph 11 of IAS 32, Appendix A of IFRS 7, Appendix A of IFRS 13 or Appendix A of IFRS 15 and are used in this Standard with the meanings specified in IAS 32, IFRS 7, IFRS 13 or IFRS 15:

(a) credit risk;[1]

(b) equity instrument;

(c) fair value;

(d) financial asset;
(e) financial instrument;
(f) financial liability;
(g) transaction price.

Footnotes

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[1] This term (as defined in IFRS 7) is used in the requirements for presenting the effects of changes in credit risk on liabilities designated as at fair value through profit or loss (see paragraph 5.7.7). (back)