เอกสารประกอบการสัมมนาทางวิชาการ **(ไม่เสียค่าใช้จ่าย)**

โครงการสัมมนา เสริมความคิด ติดปีกวิชาชีพ กับคณะพาณิชย์ฯ ธรรมศาสตร์

โดยการสนับสนุนเงินทุนจาก มูลนิธิบุญชู โรจนเสถียร

บริษัท ดีลอยท์ ทู้ช โธมัทสุ ไชยยศ สอบบัญชี จำกัด

บริษัทสำนักงาน อี วาย จำกัด

บริษัท ไพร้ซวอเตอร์เฮาส์คูเปอร์ส เอบีเอเอส จำกัด และคณะฯ

เรื่อง “ร่าง TFRS 9 เครื่องมือทางการเงิน”

วันพฤหัสบดีที่ 30 พฤศจิกายน 256 เวลา 13.00 – 16.15 น.

ณ ห้องบรรยายบุญชู โรจนเสถียร (พบ.201)

คณะพาณิชยศาสตร์และการบัญชี มหาวิทยาลัยธรรมศาสตร์ ท่าพระจันทร์

วิทยากร :

รองศาสตราจารย์ ดร.สมชาย สุภัทรกุล

รองคณบดีฝ่ายการเงิน คณะพาณิชยศาสตร์และการบัญชี มธ.

รองศาสตราจารย์ สังกัดภาควิชาการบัญชี คณะพาณิชยศาสตร์และการบัญชี มธ.

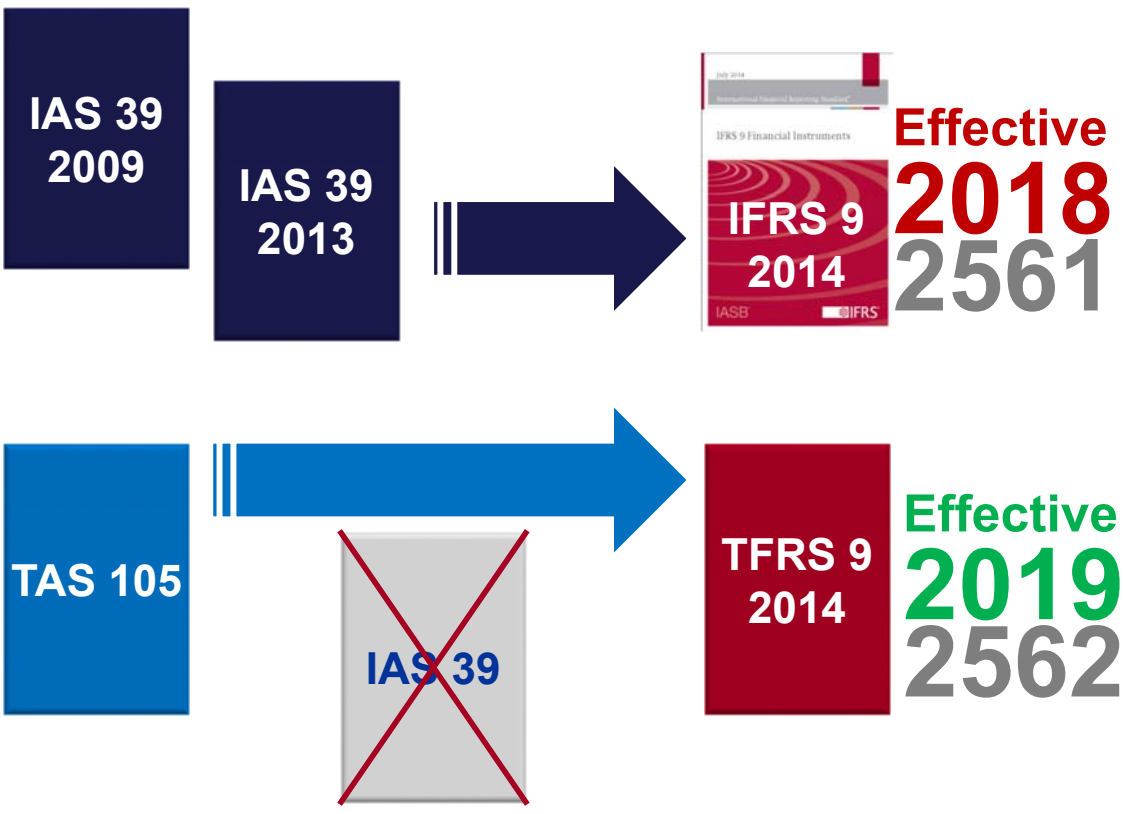
ประธานคณะกรรมการกำหนดมาตรฐานการบัญชี สภาวิชาชีพบัญชีฯ และผู้สอบบัญชีรับอนุญาต

IFRS 9

Financial Instruments

Somchai Supattarakul
Thammasat Business School
November 30, 2017

Financial Reporting Standards for Financial Instruments



Definition – FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a ***Financial Asset*** of one entity and a ***Financial Liability*** or ***Equity Instrument*** of another entity.

Significant Changes

Classification & Measurement

Impairment Loss

Hedge Accounting

Classification & Measurement

Classification and Measurement

TAS 105	IAS 39	TFRS 9
Financial Assets	Financial Assets and Liabilities	Financial Assets and Liabilities

TAS 105 Classification and Measurement

Classification	Instrument Type	Initial Measurement	Subsequent Measurement	Fair Value Gains/Losses
Trading Securities	Debt or Equity	Fair Value plus Transaction Cost	Fair Value	Profit or Loss
Available-for-sale Securities (AFS)	Debt or Equity	Fair Value plus Transaction Cost	Fair Value	OCI (Recycling)
Held-to-maturity Investment (HTM)	Debt	Fair Value plus Transaction Cost	Amortized Cost	n/a

Financial Assets **TAS 105**

IAS 39 Classification and Measurement

Classification	Instrument Type	Initial Measurement	Subsequent Measurement	Fair Value Gains/Losses
FA/FL at Fair Value through Profit or Loss (**FVPL**)	Debt, Equity or Derivative	Fair Value	Fair Value	Profit or Loss
Available-for-sale assets (AFS)	Debt or Equity	Fair Value plus Transaction Cost	Fair Value	OCI (Recycling)
Held-to-maturity Investment (HTM)	Debt	Fair Value plus Transaction Cost	Amortized Cost	n/a
Loans and Receivables	Debt	Fair Value plus Transaction Cost	Amortized Cost	n/a
Other Financial Liabilities	Debt	Fair Value plus Transaction Cost	Amortized Cost	n/a

Financial Assets and Liabilities **IAS 39**

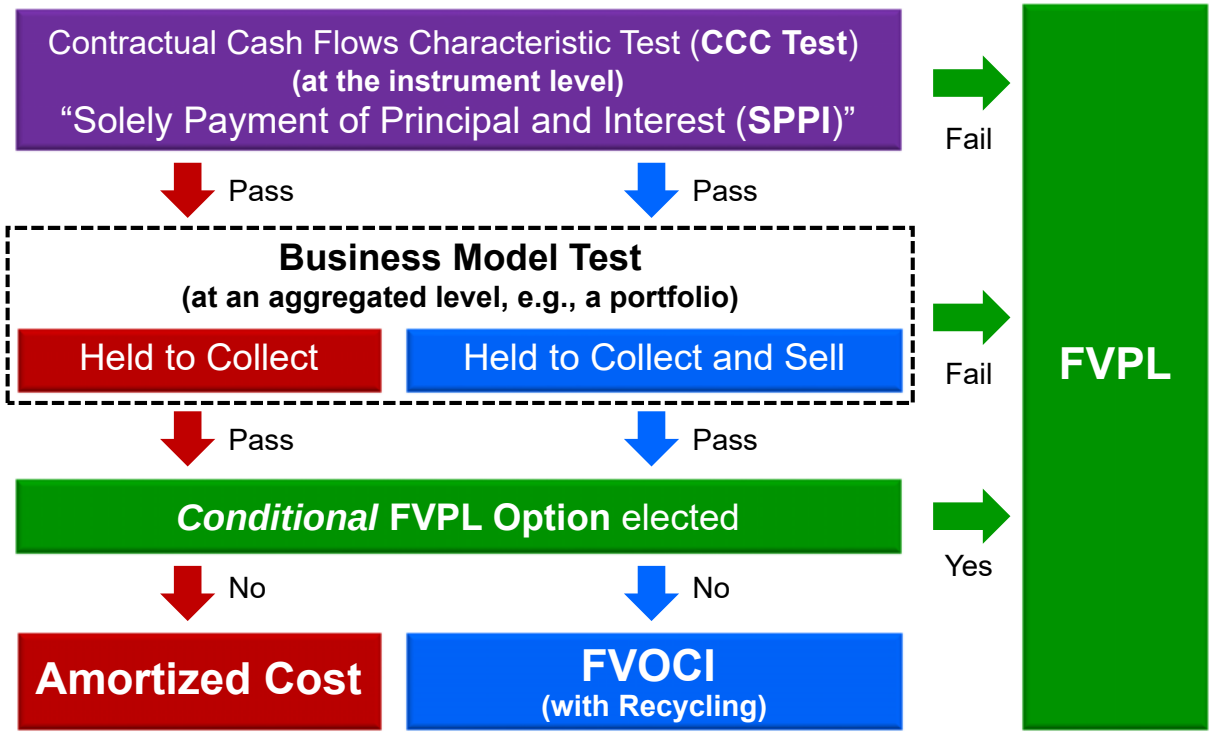
IFRS 9 Classification and Measurement

Classification	Instrument Type	Initial Measurement	Subsequent Measurement	Fair Value Gains/Losses
FA/FL at Fair Value through Profit or Loss (**FVPL**)	Debt, Equity or Derivative	Fair Value plus Transaction Cost	Fair Value	Profit or Loss
FA at Fair Value through Other Comprehensive Income (**FVOCI**)	Debt or Equity	Fair Value plus Transaction Cost	Fair Value	OCI No Recycling for Equity Instruments
FA/FL at **Amortized Cost**	Debt	Fair Value plus Transaction Cost	Amortized Cost	n/a

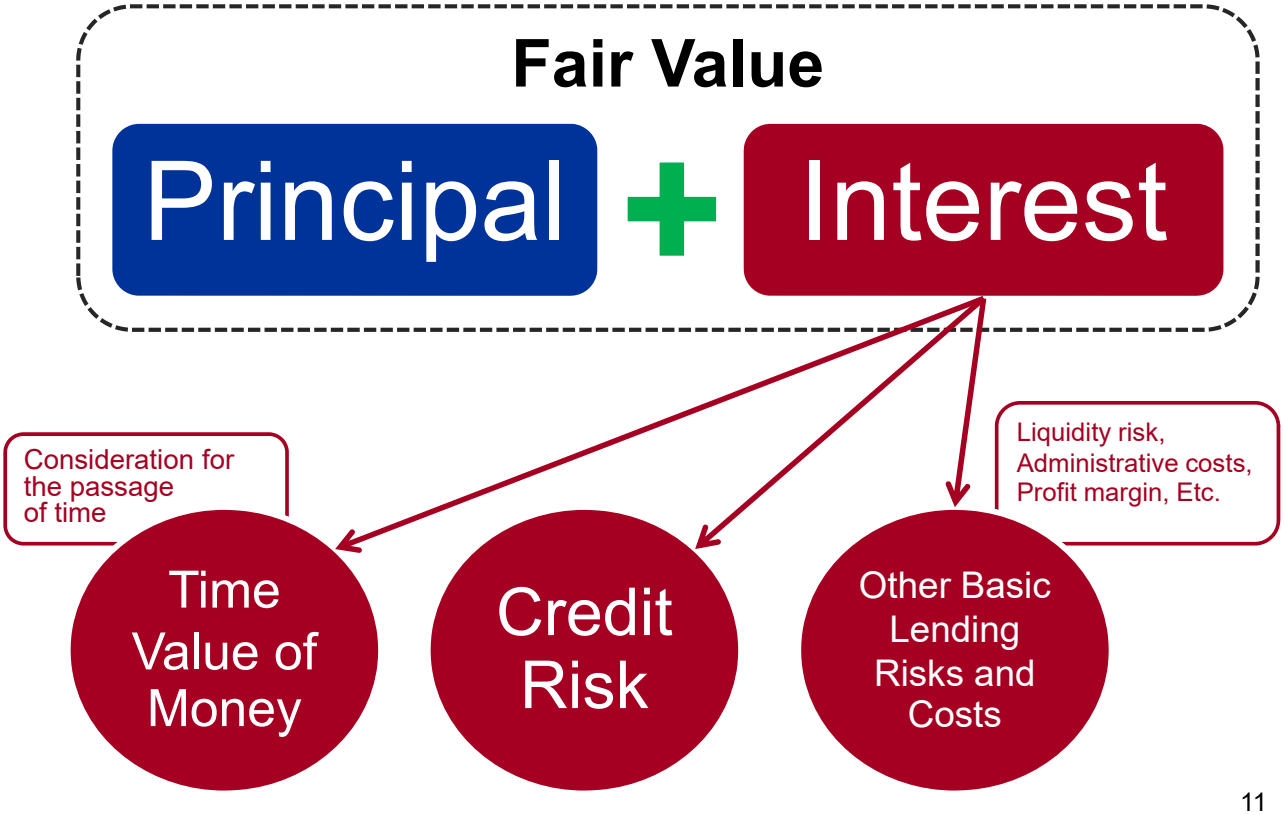
Financial Assets and Liabilities **IFRS 9**

IFRS 9 FA – Classification and Measurement

Debt Instruments



Contractual Cash Flow Characteristics (CCC)



Business Model Test

Business model is determined by a company's key personnel.

A business model can typically be observed through the activities that a company undertakes to achieve its business objective.

- Evaluation of performance of the business model and internal reporting
- Risk that affects the performance of the business model and management of those risk
- How managers are compensated

Business Model – **Held to Collect**

Hold financial assets in order to collect contractual cash flows

Sales are not an integral part of the "Hold to Collect" business model but may be consistent with it if . . .

- Insignificant even if frequent
- Infrequent even if significant value
- Close to maturity
- Due to an increase in credit risk

Business Model – **Held to Collect and Sell**

Hold financial assets in order to both collect contractual cash flows and sell financial assets

Both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the "Hold to Collect and Sell" business model.

Consideration of frequency, value and reason of sales are not necessary.

Typically involves greater frequency and value of sales compared to the "Hold to Collect" business model.

FA at Amortized Cost – Effective Interest Rate

Coupon Rate = EIR

Effective Interest Rate (EIR) = 5.00%

Period	Interest Rate	Cash Received	Interest Income	Carrying Amount
0				1,000,000
1	5.00%	50,000	50,000	1,000,000
2	5.00%	50,000	50,000	1,000,000
3	5.00%	50,000	50,000	1,000,000
4	5.00%	50,000	50,000	1,000,000
5	5.00%	50,000	50,000	1,000,000
6	5.00%	50,000	50,000	1,000,000
7	5.00%	50,000	50,000	1,000,000
8	5.00%	50,000	50,000	1,000,000
9	5.00%	50,000	50,000	1,000,000
10	5.00%	50,000	50,000	1,000,000

Profit or Loss

Statement of Financial Position

	Debit	Credit
Period 0		
FA at Amortized Cost	1,000,000	
Cash		1,000,000
Period 1		
Cash	50,000	
Interest Revenue		50,000
Period 2		
Cash	50,000	
Interest Revenue		50,000
Period 10		
Cash	50,000	
Interest Revenue		50,000
Cash	1,000,000	
FA at Amortized Cost		1,000,000

FA at Amortized Cost – Effective Interest Rate

Premium Amortization Coupon Rate > EIR

Effective Interest Rate (EIR) = 4.50%

Period	Interest Rate	Cash Received	Interest Income	Carrying Amount
0				1,039,564
1	5.00%	50,000	46,780	1,036,344
2	5.00%	50,000	46,635	1,032,979
3	5.00%	50,000	46,484	1,029,464
4	5.00%	50,000	46,326	1,025,789
5	5.00%	50,000	46,161	1,021,950
6	5.00%	50,000	45,988	1,017,938
7	5.00%	50,000	45,807	1,013,745
8	5.00%	50,000	45,619	1,009,363
9	5.00%	50,000	45,421	1,004,785
10	5.00%	50,000	45,215	1,000,000

Profit or Loss

Statement of Financial Position

	Debit	Credit
Period 0		
FA at Amortized Cost	1,039,564	
Cash		1,039,564
Period 1		
Cash	50,000	
FA at Amortized Cost		3,220
Interest Revenue		46,780
Period 2		
Cash	50,000	
FA at Amortized Cost		3,365
Interest Revenue		46,635
Period 10		
Cash	50,000	
FA at Amortized Cost		4,785
Interest Revenue		45,215
Cash	1,000,000	
FA at Amortized Cost		1,000,000

FA at Amortized Cost – Effective Interest Rate

Discount Amortization Coupon Rate < EIR

Effective Interest Rate (EIR) = 6.00%

Period	Interest Rate	Cash Received	Interest Income	Carrying Amount
0				926,399
1	5.00%	50,000	55,584	931,983
2	5.00%	50,000	55,919	937,902
3	5.00%	50,000	56,274	944,176
4	5.00%	50,000	56,651	950,827
5	5.00%	50,000	57,050	957,876
6	5.00%	50,000	57,473	965,349
7	5.00%	50,000	57,921	973,270
8	5.00%	50,000	58,396	981,666
9	5.00%	50,000	58,900	990,566
10	5.00%	50,000	59,434	1,000,000

Profit or Loss

Statement of Financial Position

	Debit	Credit
Period 0		
FA at Amortized Cost	926,399	
Cash		926,399
Period 1		
Cash	50,000	
FA at Amortized Cost	5,584	
Interest Revenue		55,584
Period 2		
Cash	50,000	
FA at Amortized Cost	5,919	
Interest Revenue		55,919
Period 10		
Cash	50,000	
FA at Amortized Cost	9,434	
Interest Revenue		59,434
Cash	1,000,000	
FA at Amortized Cost		1,000,000

FA at FVOCI – Effective Interest Rate

Effective Interest Rate (EIR) = 5.00%

Period	Interest Rate	Cash Received	Interest Income	Carrying Amount	Fair Value	Market Rate	OCI in Equity	OCI in CI
0				1,000,000	1,000,000	5.00%	0	0
1	5.00%	50,000	50,000	1,000,000	985,910	5.20%	(14,090)	(14,090)
2	5.00%	50,000	50,000	1,000,000	993,563	5.10%	(6,437)	7,653
3	5.00%	50,000	50,000	1,000,000	1,000,000	5.00%	0	6,437
4	5.00%	50,000	50,000	1,000,000	989,913	5.20%	(10,087)	(10,087)
5	5.00%	50,000	50,000	1,000,000	995,682	5.10%	(4,318)	5,769
6	5.00%	50,000	50,000	1,000,000	992,941	5.20%	(7,059)	(2,742)
7	5.00%	50,000	50,000	1,000,000	991,876	5.30%	(8,124)	(1,065)
8	5.00%	50,000	50,000	1,000,000	992,604	5.40%	(7,396)	728
9	5.00%	50,000	50,000	1,000,000	SOLD			
10	5.00%	50,000	50,000	1,000,000				

Profit or Loss

Statement of Financial Position

OCI in Equity

OCI in CI

FA at FVOCI – Effective Interest Rate

	Debit	Credit
Period 0		
FA at FVOCI	1,000,000	
Cash		1,000,000
Period 1		
Cash	50,000	
Interest Revenue		50,000
Unrealized Loss – OCI	14,090	
FA at FVOCI		14,090
Period 2		
Cash	50,000	
Interest Revenue		50,000
FA at FVOCI	7,653	
Unrealized Gain - OCI		7,653

	Debit	Credit
Period 3		
Cash	50,000	
Interest Revenue		50,000
FA at FVOCI	6,437	
Unrealized Gain - OCI		6,437
Period 8		
Cash	50,000	
Interest Revenue		50,000
FA at FVOCI	728	
Unrealized Gain - OCI		728
Cash	992,604	
Realized Loss	7,396	
FA at FVOCI		992,604
Unrealized Gain/Loss – OCI		7,396

FA at FVPL – Effective Interest Rate

Effective Interest Rate (EIR) = 5.00%

Period	Interest Rate	Cash Received	Interest Income	Carrying Amount	Fair Value	Market Rate	Gain (Loss)
0				1,000,000	1,000,000	5.00%	0
1	5.00%	50,000	50,000	1,000,000	985,910	5.20%	(14,090)
2	5.00%	50,000	50,000	1,000,000	993,563	5.10%	7,653
3	5.00%	50,000	50,000	1,000,000	1,000,000	5.00%	6,437
4	5.00%	50,000	50,000	1,000,000	989,913	5.20%	(10,087)
5	5.00%	50,000	50,000	1,000,000	995,682	5.10%	5,769
6	5.00%	50,000	50,000	1,000,000	992,941	5.20%	(2,742)
7	5.00%	50,000	50,000	1,000,000	991,876	5.30%	(1,065)
8	5.00%	50,000	50,000	1,000,000	992,604	5.40%	728
9	5.00%	50,000	50,000	1,000,000	SOLD		
10	5.00%	50,000	50,000	1,000,000			

Profit or Loss

Statement of Financial Position

Profit or Loss

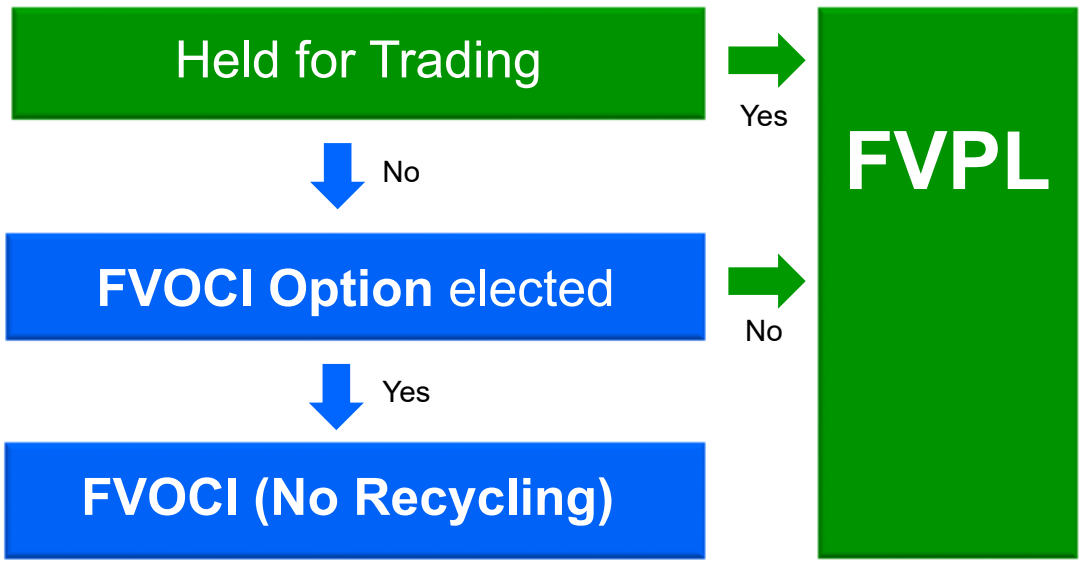
FA at FVPL – Effective Interest Rate

	Debit	Credit
Period 0		
FA at FVPL	1,000,000	
Cash		1,000,000
Period 1		
Cash	50,000	
Interest Revenue		50,000
Unrealized Loss (PL)	14,090	
FA at FVPL		14,090
Period 2		
Cash	50,000	
Interest Revenue		50,000
FA at FVPL	7,653	
Unrealized Gain (PL)		7,653

	Debit	Credit
Period 3		
Cash	50,000	
Interest Revenue		50,000
FA at FVPL	6,437	
Unrealized Gain (PL)		6,437
Period 8		
Cash	50,000	
Interest Revenue		50,000
FA at FVPL	728	
Unrealized Gain (PL)		728
Cash	992,604	
FA at FVOCI		992,604

IFRS 9 FA – Classification and Measurement

Equity Instruments



Investment in Equity Instrument – FVPL Vs. FVOCI

STOCK NAME	No. of Shares	Price - Jun 10, 20X1	Amount	Price - Dec 31, 20X1	Amount
ABC - FA at FVPL	10,000	20.00	200,000	25.00	250,000
DEF - FA at FVOCI	20,000	30.00	600,000	27.00	540,000

	Div. Received	
ABC - FA at FVPL	20,000	Oct 31, 20X1
DEF - FA at FVOCI	80,000	Oct 31, 20X1

Price - Mar 31, 20X2	Amount
SOLD 26.00	260,000
25.00	500,000

Investment in Equity Instrument – FVPL Vs. FVOCI

	Debit	Credit
June 11, 20X1		
FA at FVPL	200,000	
Cash		200,000
FA at FVOCI	600,000	
Cash		600,000
October 31, 20X1		
Cash	100,000	
Dividend Income		100,000
December 31, 20X1		
FA at FVPL	50,000	
Unrealized Gain (PL)		50,000
Unrealized Loss (OCI)	60,000	
FA at FVOCI		60,000

CI Statement 20X1

- Dividend income = 100,000 (20,000+80,000)

- Unrealized gain (FVPL) = 50,000 (250,000-200,000)

- OCI - Unrealized loss (FVOCI) = -60,000
  (540,000-600,000)

Statement of Financial Position – Dec 31, 20X1

- (Asset) FA at FVPL = 250,000

- (Asset) FA at FVOCI = 540,000

- (Equity) Unrealized loss (FVOCI) = -60,000
  (540,000-600,000)

Investment in Equity Instrument – FVPL Vs. FVOCI

	Debit	Credit
March 31, 20X2		
FA at FVPL	10,000	
Unrealized Gain (PL)		10,000
Cash	260,000	
FA at FVPL		260,000
Unrealized Loss (OCI)	40,000	
FA at FVOCI		40,000
Cash	500,000	
FA at FVOCI		500,000
Retained Earnings	100,000	
Unrealized Loss (OCI)		100,000

CI Statement 20X2
- Unrealized gain (FVPL) = 10,000 (260,000-250,000)

- OCI - Unrealized loss (FVOCI) = -40,000
(500,000-540,000)

Statement of Financial Position – Mar 31, 20X2
- (Equity) Retained earnings = -100,000

The cumulative unrealized loss (FVOCI) of 100,000 cannot be recognized in PL when FA at FVOCI are sold.

IFRS 9 FL – Classification and Measurement
Financial Liabilities

Amortized Cost

FVPL

FVPL Financial Liabilities
- Fair value option – designated at inception
- Derivative liabilities

The part of the fair value changes of FVPL liabilities that is attributable to the change in the entity's own credit risk is presented in OCI instead of PL.

Reclassification is not permitted for financial liabilities.

Impairment

Impairment Loss

From

Incurred Loss Model in IAS 39

To

Expected Credit Loss Model in IFRS 9: Three-Bucket Model

IFRS 9 - No Longer a Converged Standard

At the beginning of the project, the **FASB** and **IASB** worked jointly on both classification and measurement and the impairment projects.

However, due to lack of support for a THREE-BUCKET MODEL for the recognition of impairment losses in the United States, the FASB developed a single measurement model, while the IASB continued with the three-bucket model.

The **FASB** also decided not to pursue a classification and measurement model similar to **IASB**.

IFRS 9 Expected Credit Loss Model

Classification	Instrument Type	Subsequent Measurement	Fair Value Gains/Losses
FA/FL at **FVPL**	Debt, Equity or Derivative	Fair Value	Profit or Loss
FA at FVOCI	Debt or Equity	Fair Value	OCI
FA~~/FL~~ at Amortized Cost	Debt	Amortized Cost	n/a

Recognition of Impairment Loss: Expected Credit Loss Model

SCOPE

IFRS 9 Expected Credit Loss Model

Three-Bucket Model

Financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date.

Financial instruments that have had a significant increase in credit risk since initial recognition and are not considered to have low credit risk at the reporting date.

Financial assets that have objective evidence of impairment at the reporting date. (Credit-impaired Assets)

IFRS 9 Expected Credit Loss Model

Financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date.

Recognition of Expected Credit Losses (ECL)

12-MONTH ECL are recognized in profit and loss. 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months.

Recognition of Interest Revenue

Interest revenue is calculated on the **GROSS** carry amount of the asset (that is, without deduction of credit allowance).

IFRS 9 Expected Credit Loss Model

Financial instruments that have had a significant increase in credit risk since initial recognition and are not considered to have low credit risk at the reporting date.

Recognition of Expected Credit Losses (ECL)

LIFETIME ECL are recognized in profit and loss. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the probability of default (PD) as the weight.

Recognition of Interest Revenue

Interest revenue is calculated on the **GROSS** carry amount of the asset (that is, without deduction of credit allowance).

Significant Increase in Credit Risk
If no other forward looking, borrower-specific information available to identify financial instruments that have experienced significant increase in credit risk, **a rebuttable presumption of more than 30 days past due can be used to serve as a backstop.**

IFRS 9 Expected Credit Loss Model

Financial assets that have objective evidence of impairment at the reporting date.
(Credit-impaired Assets)

Recognition of Expected Credit Losses (ECL)

LIFETIME ECL are recognized in profit and loss. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the probability of default (PD) as the weight.

Recognition of Interest Revenue

Interest revenue is calculated on the **NET** carry amount of the asset (that is, net of credit allowance).

IFRS 9 Expected Credit Loss Model

Change in Credit Risk

Stage 1	Stage 2	Stage 3
Initial recognition	Significant increase in credit risk	Objective evidence of impairment

Loss Allowance

1 year ECL	Lifetime ECL

Interest Revenue

Gross Basis	Net Basis

Measuring ECL

ECL are a probability-weighted estimate of credit losses.
A credit loss is the difference between the cash flows that are due to a company in accordance with the contract and the cash flows that the company expected to receive discounted at the original effective interest rate. Because ECL consider the amounting and timing of payments, a credit loss arises even if the company expects to be paid in full but later than when contractually due.

ECL = **Credit Loss** x **Probability of Default**

Credit Loss =
- **Present Value of Contractual Cash Flows**
- **Present Value of Cash Flows the company expects to receive**

Example – Estimating ECL for Amortized Cost FA

Company A originates a single 5-year amortizing loan for Bt.10 million.

Taking into consideration the expectations for instruments with similar credit risk *(using reasonable and supportable information that is available without undue cost and effort)*, the credit risk of the borrower, and the economic outlook for the next 12 months,

Company A estimates that the loan at initial recognition has a PD of 0.5% over the next 12 months.

Company A also determines that changes in the 12-month PD are a reasonable approximation of the changes in the lifetime PD for determining whether there has been a significant increase in credit risk since initial recognition.

Example – Estimating ECL for Amortized Cost FA

At year 1 (the reporting date), there has been no change in the 12-month PD, Company A determines that there was no significant increase in credit risk since initial recognition. Company A determines that 25% of the gross carrying amount will be lost of the loan defaults (that is, the LGD is 25%).

12-month ECL = 0.5% x 25% x Bt.10,000,000 = Bt.12,500

ECL of Bt.12,500 are recognized in profit and loss and the loss allowance is Bt.12,500.

Example – Estimating ECL for Amortized Cost FA

At year 2 (the reporting date), there has been no change in the 12-month PD, Company A determines that there was no significant increase in credit risk since initial recognition. Company A determines that 40% of the gross carrying amount will be lost of the loan defaults (that is, the LGD is 40%).

12-month ECL = 0.5% x 40% x Bt.10,000,000 = Bt.20,000

ECL of Bt.7,500 (20,000 – 12,500) are recognized in profit and loss and the loss allowance is Bt.20,000.

Example – Estimating ECL for Amortized Cost FA

At year 3 (the reporting date), Company A determines that there was a significant increase in credit risk since initial recognition. Company A determines that the lifetime PD is 20% and the LGD is 40%.

Lifetime ECL = 20% x 40% x Bt.10,000,000 = Bt.800,000

ECL of Bt.780,000 (800,000 – 20,000) are recognized in profit and loss and the loss allowance is Bt.800,000.

Example – Estimating ECL for Amortized Cost FA

At year 4 (the reporting date), there is objective evidence of impairment. Company A determines that the impaired amount is Bt.4,000,000.

ECL of Bt.3,200,000 (4,000,000 – 800,000) are recognized in profit and loss and the loss allowance is Bt.4,000,000.

Example – Estimating ECL for FVOCI FA

Company B purchases a debt instrument with a fair value of Bt.1,000,000 on December 15, 20X1 (the initial recognition date) and measures the debt instrument at FVOCI. The instrument has an interest rate of 5% over the contractual term of 10 years, and has 5% effective interest rate.

	Debit	Credit
Financial asset at FVOCI	1,000,000	
Cash		1,000,000

Example – Estimating ECL for FVOCI FA

On December 31, 20X1 (the reporting date), the fair value of the debt instrument has decreased to Bt.950,000 as a result of changes in market interest rates. Company B determines that there has not been a significant increase in credit risk since initial recognition and that 12-month ECL is Bt.30,000.

	Debit	**Credit**
Impairment loss (P&L)	30,000	
Other comprehensive income	20,000	
Financial asset at FVOCI		50,000

The cumulative loss in OCI at the reporting date was Bt.20,000. That amount consists of the total fair value change of Bt.50,000 (that is, 1,000,000 – 950,000) offset by the change in the cumulative impairment amount representing 12-month ECL that was recognized (Bt.30,000).

Example – Estimating ECL for FVOCI

On January 1, 20X2, Company B decides to sell the debt instrument for Bt.950,000, which is its fair value at that date.

	Debit	**Credit**
Cash	950,000	
Financial asset – FVOVI		950,000
Loss on sale (P&L)	20,000	
Other comprehensive income		20,000

When calculating ECL on financial assets classified in the FVOCI category, movements in the ECL provision will impact P&L.

Derivatives & Hedge Accounting

Types of Derivatives

Non-hedging Derivative Instruments	Hedging Derivative Instruments
Held-for-Trading Classified as FA/FL at Fair Value through Profit or Loss (FVPL)	Fair Value Hedge Derivatives intended to hedge against the changes in the *FAIR VALUE* of (1) an existing asset or liability or (2) an unrecognized firm commitment. Cash Flow Hedge Derivatives intended to hedge against the variability of *FUTURE CASH FLOWS* associated with (1) a highly probable forecast transaction or (2) an existing asset or liability. Hedge of a Net Investment in a Foreign Operation

IFRS 9 Classification and Measurement – FA/FL

Classification	Instrument Type	Initial Measurement	Subsequent Measurement	Fair Value Gains/Losses
FA/FL at Fair Value through Profit or Loss (**FVPL**)	Debt, Equity or **Derivative**	Fair Value plus Transaction Cost	Fair Value	Profit or Loss
FA at Fair Value through Other Comprehensive Income (**FVOCI**)	Debt or Equity	Fair Value plus Transaction Cost	Fair Value	OCI **No Cycling for Equity Instruments**
FA/FL at **Amortized Cost**	Debt	Fair Value plus Transaction Cost	Amortized Cost	n/a

FA = Financial Assets
FL = Financial Liabilities

How to Account for Non-hedging Derivatives

All derivatives are accounted for at FAIR VALUE

All derivatives are included in the statement of financial position as either assets or liabilities at their **FAIR VALUE** measured at the date of the statement of financial position.

The gains or losses resulting from the changes in the fair value of **a non-hedging derivative** are recognized in **Profit or Loss**.

Hedging Accounting – Qualified Hedge

Hedging Instrument	Hedged Item
- Derivatives and non-derivatives at FVPL - Time value / Forward element - Foreign currency basis	- Separate risk components - Groups of items, including net position - Aggregate exposures

Designate and Document

- **Fair Value Hedge**
- **Cash Flow Hedge**
- **Hedge of Net Investment in a Foreign Operation**

Effectiveness Assessment (No more 80-125% test)

Ineffectiveness Measurement

Derivatives and Hedging Accounting

Fair Value Hedge

Existing Assets

Financial Assets

On January 31, 20X1, ABC has 1,000 common shares of PTT. ABC wants to hedge against the potential price changes of PTT stocks (**hedged item**). ABC decides to enter into a 6-month forward contract to sell 1,000 shares of PTT and designates it as a **hedging instrument**.

Non-financial Assets

On February 14, 20X1, ABC has 10 tons of copper. ABC wants to hedge against the potential price changes in the copper (**hedged item**) that may occur prior to the point when the copper inventory will be sold. ABC decides to enter into a 3-month forward contract to sell 10 tons of copper and designates it as a **hedging instrument**.

Existing Liabilities

On March 1, 20X1, ABC has a loan of USD 1 million (**hedged item**). The maturity date is May 31, 20X1. ABC wants to hedge against the volatility of exchange rates. ABC decides to enter into a 3-month forward contract to buy USD and designates it as a **hedging instrument**.

Purchase Commitment

On February 1, 20X1, ABC has a commitment to purchase 50 tons of copper on August 31, 20X1 at 160 Baht/kg. ABC wants to hedge against the potential price changes in the copper (**hedged item**) that may occur prior to the delivery. ABC decides to enter into a 3-month forward contract to sell copper and designates it as a **hedging instrument**.

Cash Flow Hedge

Forecast Transaction	Existing Liability
On January 1, 20X1, ABC expects to purchase 50 tons of copper on March 31, 20X1 at the market price upon the delivery. ABC wants to hedge against the potential price changes in the copper (**hedged item**) that may occur prior to the delivery. ABC decides to enter into a 3-month forward contract to buy copper and designates it as a **hedging instrument** (hedging of future purchase price).	On January 1, 20X1, ABC borrows a Bt. 1 million of two-year MLR+1% loan. ABC wants to hedge against the potential interest rate changes (**hedged item**) that may affect its interest payments. ABC decides to use the interest rate swap agreement to convert variable-rate loan to fixed-rate loan. ABC enter into a two-year interest rate swap agreement allowing ABC to receive interest at a variable rate of the MLR+1% and pay interest at a fixed rate of 8%, based on a notional amount of Bt. 1 million and designates it as a **hedging instrument** (hedging of future interest payment).

Hedging Instrument

- The derivative is measured at its ***Fair Value*** and reported as an financial asset or liability.
- The gain or loss from a change in its fair value is recognized in ***Profit or Loss***.

Hedged Item

- The gain or loss from a change in the ***Fair Value*** of the hedged item due to the hedged risk is recognized in ***Profit or Loss.***

How to Account for Cash Flow Hedge

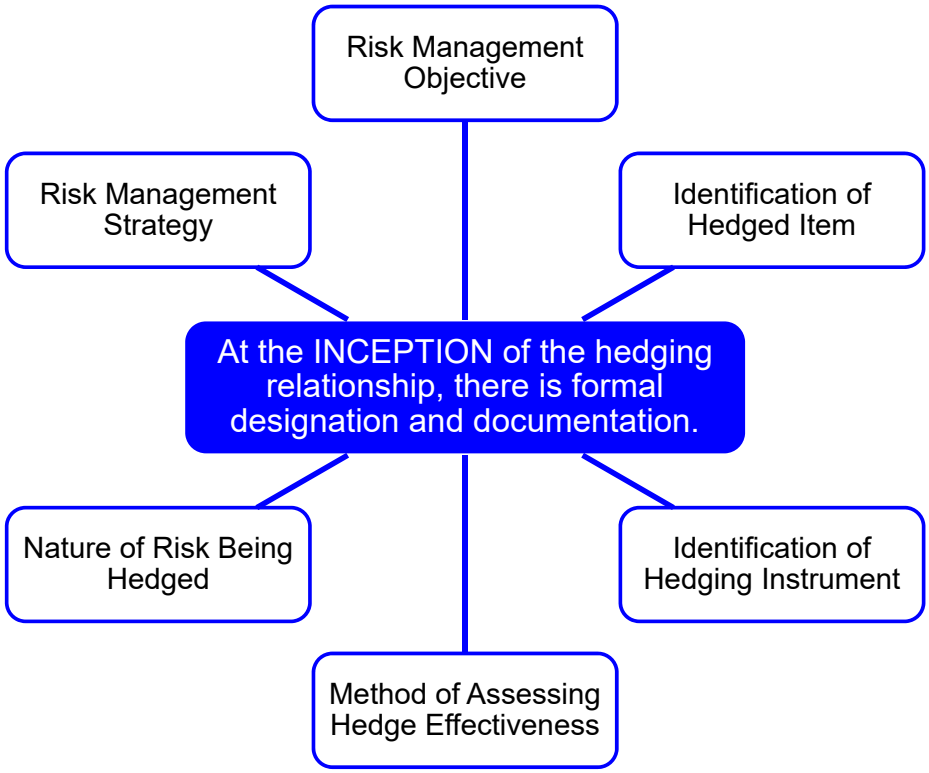
Hedging Instrument

- The derivative is measured at its ***Fair Value*** and reported as an asset or liability.
- The ***Effective Portion*** of the gain or loss from a change in its fair value is recognized as ***OCI***.
- The ***Ineffective Portion*** is recognized in ***Profit or Loss.***

Hedged Item

- The ***Effective Portion*** of the ***cumulative gain or loss*** is recognized in ***Profit or Loss*** in the same period during which the forecast transaction itself or the asset or liability resulted from the forecast transaction affects profit or loss.

Qualified Hedge



Hedge Effectiveness

Hedge Effectiveness	Hedge Ineffectiveness
Extent to which changes in the fair value or the cash flows of the hedging instrument **offset** changes in the fair value or the cash flows of the hedged item	Extent to which the changes in the fair value or the cash flows of the hedging instrument are **greater or less than** those on the hedged item

Assess hedge effectiveness requirements at the inception of the hedging relationship, and on an ongoing basis (at a minimum, at each reporting date or upon a significant change in the circumstances, whichever comes first).

TFRS 9: Financial Instruments

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