IFRS 9

Financial Instruments

The 1st Kesree Narongdej Forum

May 24, 2017

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Financial Reporting Standards for Financial Instruments

IAS 39
2009

IAS 39
2013

Effective
2018
2561

TAS 105

~~IAS 39~~

TFRS 9
2014

Effective
2019
2562
?

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	IFRS 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
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
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

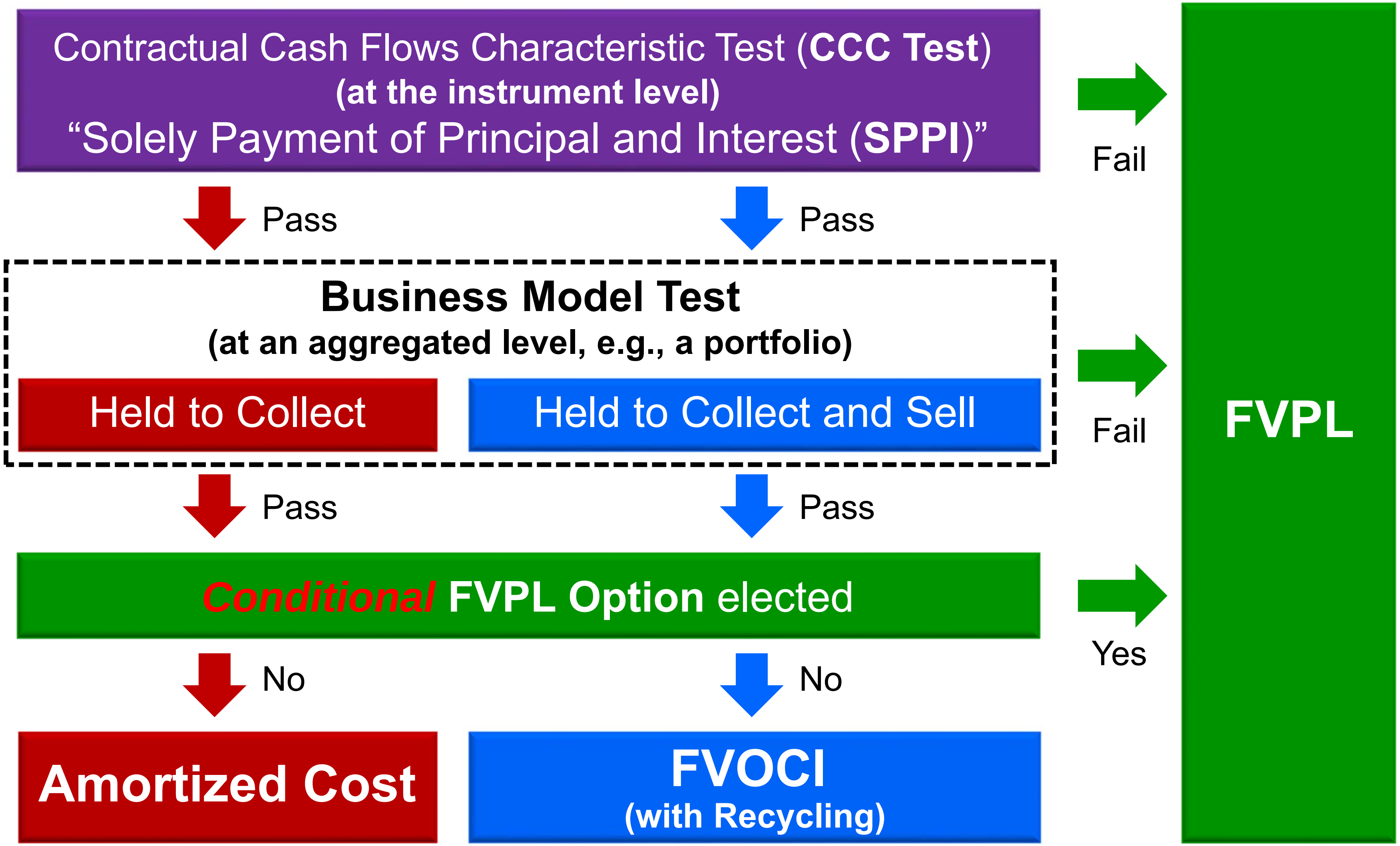
IFRS 9 Classification and Measurement

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

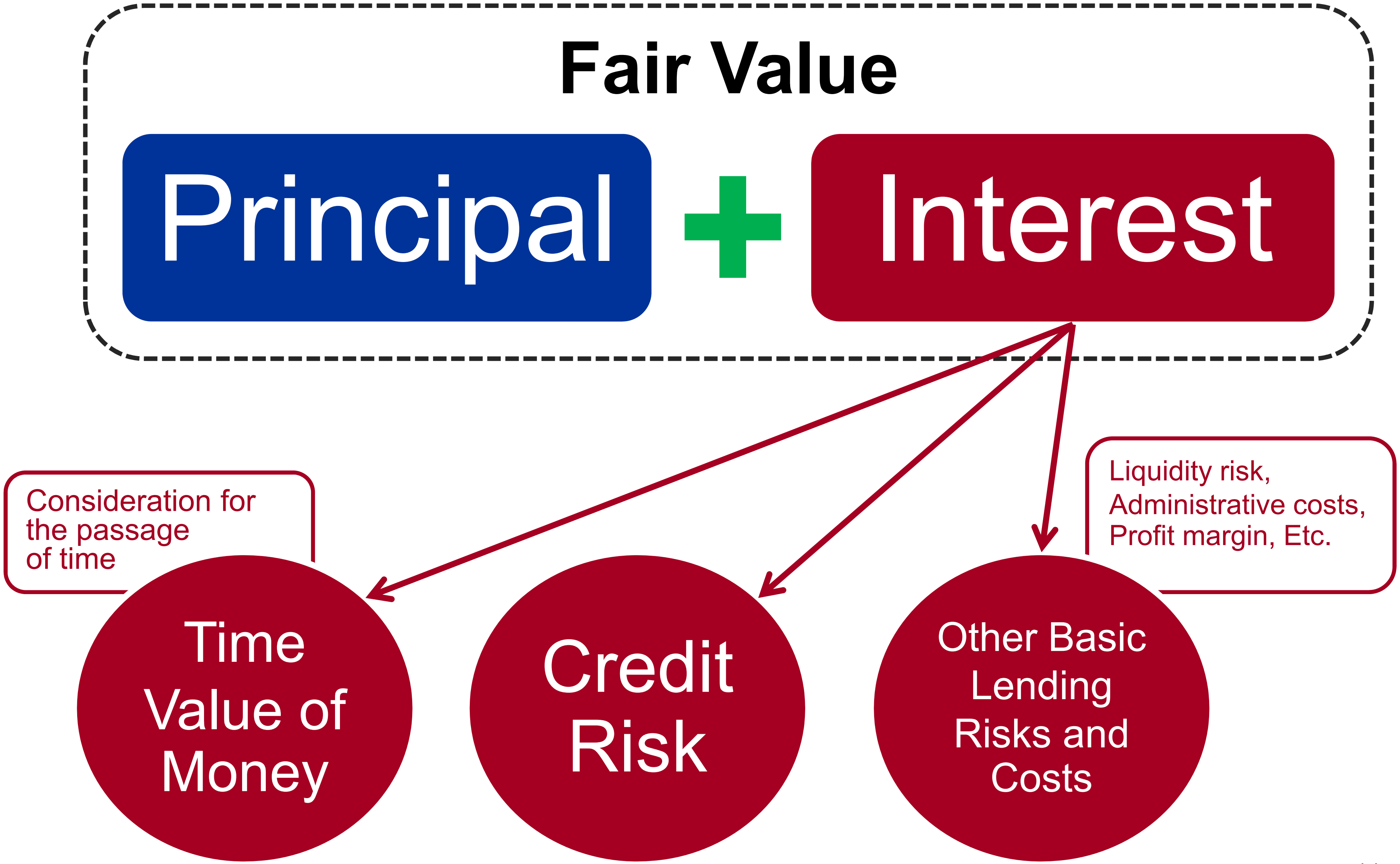
Financial Assets and Liabilities

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 amortized cost 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

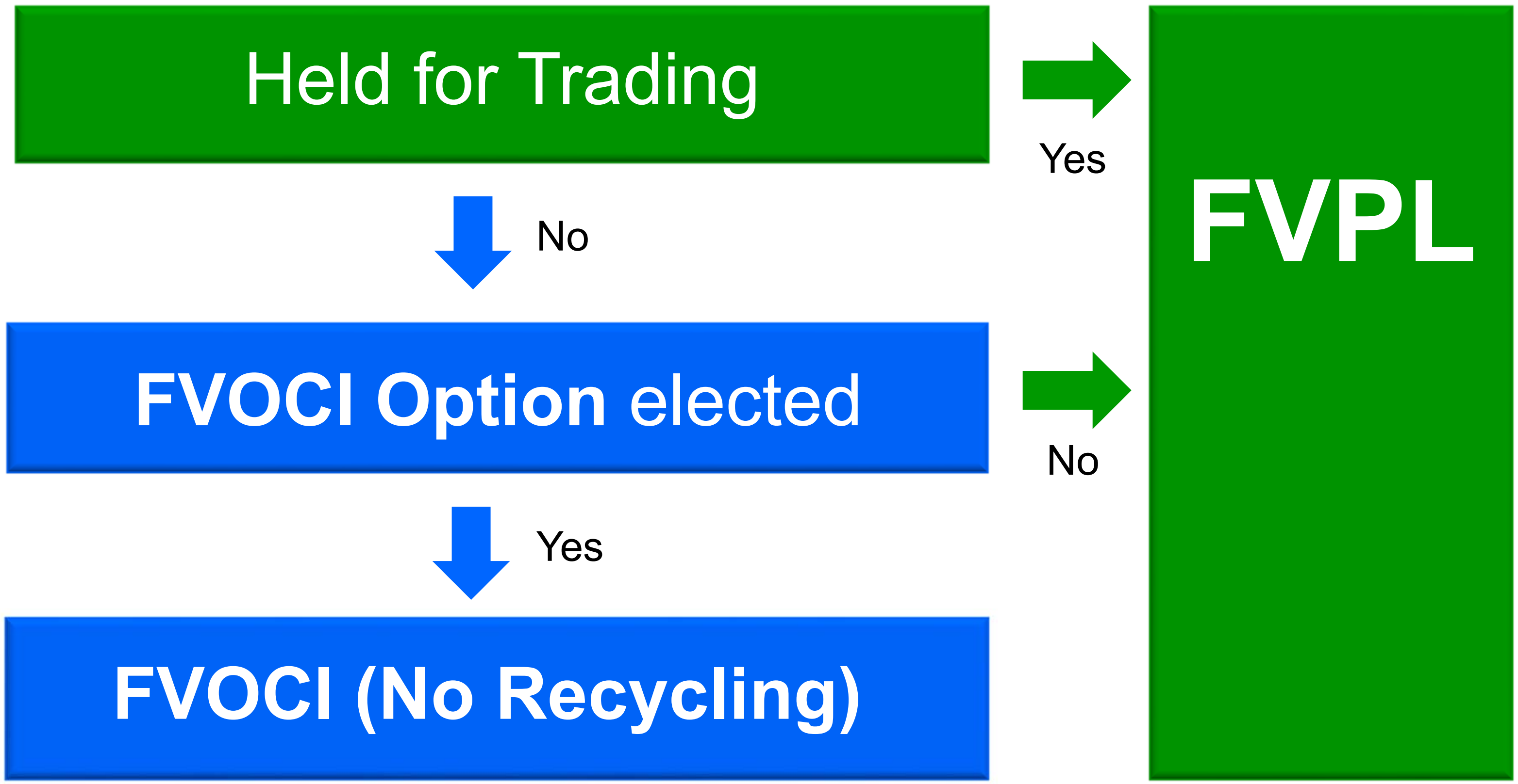
Both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the amortized cost business model

Consideration of frequency, value and reason of sales not necessary

Typically involves greater frequency and value of sales compared to the “Hold to Collect” business model

IFRS 9 FA – Classification and Measurement

Equity Instruments



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

Credit Loss =

Present Value of Contractual Cash Flows

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Present Value of Cash Flows the company expects to receive

Key Changes in Hedge Accounting

Risk Component

IFRS 9 permits an entity to designate a risk component of a non-financial item as the hedged item in a hedging relationship, provided the risk component is separately identifiable and reliably measurable.

Hedging Instruments

IFRS 9 permits entities to designate, as hedging instruments, non-derivative financial assets and liabilities that are accounted for at fair value through profit or loss.

Hedge Effectiveness Assessment

A prospective effectiveness assessment is required on an ongoing basis, as a minimum at each reporting date and can be qualitative. Companies no longer need to perform a retrospective quantitative effectiveness assessment using the 80%-125% bright lines. It is replaced by an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship.

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