Snapshot – IFRS 9 – Financial Instruments (excluding hedge accounting)

OBJECTIVE

The objective of this Standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

SCOPE

IFRS 9 shall apply to all types of financial instruments **except**:

- interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* or IAS 28 *Investments in Associates and Joint Ventures*
- rights and obligations under leases to which IFRS 16 *Leases* applies (with exceptions)
- employers' rights and obligations under employee benefit plans, to which IAS 19 *Employee Benefits* applies (with exceptions)
- financial instruments issued by the entity that meet the definition of an equity instrument in IAS 32 (with exceptions)
- rights and obligations arising under an insurance contract as defined in IFRS 4 *Insurance Contracts* (with exceptions)
- loan commitments other than those loan commitments described in IFRS 9
- any forward contract between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination within the scope of IFRS *3 Business Combinations* at a future acquisition date
- financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 *Share-based Payment* applies (with exceptions)
- rights to payments to reimburse the entity for expenditure that it is required to make to settle a liability that it recognises as a provision in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* or for which, in an earlier period, it recognised a provision in accordance with IAS 37
- rights and obligations within the scope of IFRS 15 *Revenue from Contracts with Customers* that are financial instruments, except for those that IFRS 15 specifies are accounted for in IFRS 9.

DEFINITIONS

Financial asset is any asset that is one of the following:

- Cash
- An equity instrument of another entity
- A contractual right: to receive cash or another financial asset from another entity; or to exchange financial instruments with another entity under conditions that are potentially favourable.
- A contract that will be settled in the reporting entity's own equity instruments and is a non-derivative for which the entity is, or may be obligated, to receive a variable number of its own equity instruments; or a derivative that will, or may, be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments (which excludes puttable financial instruments classified as equity and instruments that are themselves contracts for the future receipt or delivery of the entity's equity instruments).

Financial liability is any liability which meets either of the following criteria:

- A contractual obligation: to deliver cash or another financial asset to another entity; or to exchange financial instruments with another entity under conditions which are potentially unfavourable to the entity.
- A contract that will, or may, be settled in the entity's own equity instruments and is a non-derivative for which the entity is, or may, be obligated to deliver a variable number of its own equity instruments; or a derivative that will, or may, be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments (which excludes puttable financial instruments classified as equity and instruments that are themselves contracts for the future receipt or delivery of the entity's equity instruments).

EFFECTIVE DATE

An entity shall apply this Standard for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

Derecognition of financial assets

An entity shall derecognise a financial asset when, and only when:

a) the contractual rights to the cash flows from the financial asset expire, or
b) it transfers the financial asset and the transfer qualifies for derecognition.

Reclassification of financial assets

If an entity reclassifies financial assets it shall apply the reclassification prospectively from the reclassification date. The entity shall not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

GENERAL RULE

Initial recognition

An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.

Initial measurement

Except for trade receivables which do not contain a significant financing component, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable

CLASSIFICATION, SUBSEQUENT MEASUREMENT AND DERECOGNITION OF FINANCIAL ASSETS

CLASSIFICATION

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income

An entity shall classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

a) the entity's business model for managing the financial assets and
b) the contractual cash flow characteristics of the financial asset.

A financial asset shall be measured at **amortised cost** if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at **fair value through other comprehensive income** if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Other wise, all other financial assets will be classified at fair value through profit or loss.

Subsequent measurement of financial assets

After initial recognition, an entity shall measure a financial asset at:

a) amortised cost;
b) fair value through other comprehensive income; or
c) fair value through profit or loss.

An entity shall recognise a loss allowance for **expected credit losses** on a financial asset that is measured at amortised cost or fair value through other comprehensive income, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply

CLASSIFICATION, SUBSEQUENT MEASUREMENT AND DERECOGNITION OF FINANCIAL LIABILITIES

An entity shall classify all financial liabilities as subsequently measured at **amortised cost**, except for:

a) financial liabilities at fair value through profit or loss.
b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
c) financial guarantee contracts
d) commitments to provide a loan at a below-market interest rate.
e) contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

Derecognition of financial liabilities

An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Reclassification of financial liabilities

An entity shall not reclassify any financial liability**.**

Disclosure requirements

The disclosure requirements for IFRS 9 are contained within IFRS 7 Financial Instruments: Disclosure.

Hedge Accounting

Refer to separate snap shot