

2012

## Technical Summary

# IFRS 9 *Financial Instruments*

as issued at 1 January 2012. Includes IFRSs with an effective date after 1 January 2012 but not the IFRSs they will replace.

*This extract has been prepared by IFRS Foundation staff and has not been approved by the IASB. For the requirements reference must be made to International Financial Reporting Standards.*

IFRS 9 specifies how an entity should classify and measure financial assets and financial liabilities, including some hybrid contracts. It is the first part of Phase 1 of the Board's project to replace IAS 39. The main phases are: Phase 1: Classification and measurement. Phase 2: Impairment methodology. Phase 3: Hedge accounting. The Board aims to have replaced IAS 39 in its entirety. Therefore the objective of this IFRS 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.

**Recognition and initial measurement:** 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. 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 to the acquisition or issue of the financial asset or financial liability.

### **Financial assets – classification, reclassification and subsequent measurement**

When an entity first recognises a financial asset, it shall classify it based on the entity's business model for managing the financial assets and 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 asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.

(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.

However, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

A financial asset shall be measured at fair value unless it is measured at amortised cost.

When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets.

### **Financial liabilities – classification, reclassification and subsequent measurement**

An entity shall classify all financial liabilities as subsequently measured at amortised cost using the effective interest method, except for:

(a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.

(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 as defined in Appendix A. After initial recognition, an issuer of such a contract shall (unless paragraph 4.2.1(a) or (b) applies) subsequently measure it at the higher of:

(i) the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and

(ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.

(d) commitments to provide a loan at a below-market interest rate. After initial recognition, an issuer of such a commitment shall (unless paragraph 4.2.1(a) applies) subsequently measure it at the higher of:

(i) the amount determined in accordance with IAS 37 and

(ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18.

However, an entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when permitted or when doing so results in more relevant information.

An entity shall not reclassify any financial liability.