

# FINANCIAL SERVICES

## International Financial Reporting Standards (IFRS) Developments



### Business Model Test

### Equity Investment

### Future Developments

### Exposure Draft /2009/12 Financial instruments: Amortised cost and impairment

### IFRS 9 Financial instruments

The new standard is part of a wider project to replace IAS 39. It currently covers new requirements for classification and measurement of financial assets, and will become effective on 1 January 2013. Until that time IAS 39 will continue to apply.

Financial assets will be measured at either amortised costs or fair value. Which method to use for measurement upon recognition is determined by the following Business Model Test.

#### Business Model Test

An entity will need to assess whether its business objective for a debt instrument is to collect the contractual cash flows or to realise its fair value by selling it prior to its contractual maturity.

Debt instruments held within a business model whose objective is to collect contractual cash flows that are solely payments of principal and interest must be measured at cost.

All other debt instruments, including derivatives, must be valued at fair value with gains and losses recognised through profit and loss.

The available-for-sale classification has been abandoned.

### Equity Investment

All equity investments, whether held for trading or not, must be measured at fair value.

There is no exemption for unquoted equity investments. However there may be circumstances when cost, adjusted for significant changes in performance, might be the best estimate of fair value.

Whether held for trading or not, gains and losses on equity investment are recognised through profit and loss. There is however an option on initial recognition of equity not held for trading, to irrevocably recognise income in other comprehensive income.

### Future Developments

The following areas are yet to be covered in the final standard and exposure drafts are expected during 2010:

- Classification and measurement of financial liabilities;
- Amortised costs and impairment of financial assets – ED/2009/12 see below;
- Recognition and derecognition of financial assets and financial liabilities; and
- Hedge accounting

# FINANCIAL SERVICES

## IFRS Developments

### Exposure Draft /2009/12 Financial instruments: Amortised cost and impairment

This ED applies to all financial instruments that are measured at amortised cost.

It proposes new principles for measurement of the carrying amount of such financial instruments.

The initial carrying amount should be determined on the basis of present value of the future expected cash flows from the asset less the expected future credit losses.

Expected credit losses may be estimated on an individual or collective basis, depending on which method provides the best estimate. If the estimated is based on historical data it must be adjusted based on current data to reflect circumstances that did not affect the historical data or conditions that no longer exist.

Subsequent reviews of the expected future credit losses will be required. Any resulting adjustments would be recognised through profit and loss.

This method is different than the approach of recognising losses as they incur under IAS 39. The method of estimating and including the expected credit losses in the present value calculation will result in a gradual recognition over the life of the financial instrument.

More comprehensive presentation and disclosure requirements are being proposed. For each accounting period the following items will have to be separately disclosed: gross interest revenue and the expected credit losses allocated to the accounting period; net interest revenue;

gains and losses from changes in cash flow estimates; and interest expense.

Specific advice should be obtained before taking action, or refraining from taking action, on any of the subjects covered

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