Scope of IFRS 9 *Financial Instruments* and transitioning from IAS 39

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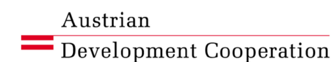
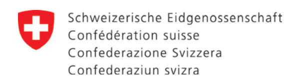




Aims

Understand:

» the scope of IFRS 9

» main differences between IAS 39 and IFRS 9

» transitioning from IAS 39 to IFRS 9

International Financial Reporting Standards dedicated exclusively to financial instruments

Standards dedicated to financial instruments	
Classification	IAS 32 *Financial Instruments: Presentation*
Scope, sub-classification, recognition, derecognition and measurement	***IFRS 9 Financial Instruments*** replaces IAS 39 *Financial Instruments: Recognition and Measurement* with effect from 1 January 2018. However: • early application of IFRS 9 is permitted (many transitional provisions) • IFRS 9 is required (subject to transition exceptions and exemptions) for periods beginning on or after 1 January 2018 • deferral and overlay approaches are available only to qualifying insurers (including first-time adopters) with a fixed expiry date of no later than periods beginning on or after 1 January 2021 (alternative disclosures apply)
Disclosure	IFRS 7 *Financial Instruments: Disclosure* (read with IFRS 12)

Scope of IFRS 9

Financial instruments scope: comparing IFRS 9 and IAS 39

<table>
<tr><th></th><th>IFRS 9</th><th>IAS 39</th></tr>
<tr><td>Principle</td><td colspan="2">The Standard specifies accounting for all financial instruments.</td></tr>
<tr><td>Rules: explicit scope <u>ex</u>clusions</td><td colspan="2">Exclusions are specified mainly because some or all of the accounting for particular financial instruments is specified in other Standards.</td></tr>
<tr><td>Rule: explicit scope <u>in</u>clusion for contracts to buy or to sell a non-financial item (use FVPL accounting for such inclusions)</td><td>Applies <u>only</u> when the contract underlying is ‘readily convertible to cash’.

However, exclude from IFRS 9 if the ‘own use’ exception applies, unless the restricted FV option is used at the inception of the contract.</td><td>However, exclude when the ‘own use’ exception applies, unless the FV option is used.

(Note: both the inclusion and the FV option are less restricted than in IFRS 9.)</td></tr>
</table>

What is a financial instrument?

IFRS 9 applies to all **financial instruments** (exceptions apply!)

» 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" paragraph 11 of IAS 32 *Financial Instruments: Presentation*.

» A **financial liability** is:

- » a contractual obligation to deliver cash or another financial asset; or
- » a contractual obligation to exchange financial assets or liabilities with another entity on potentially unfavourable terms.

A **financial asset** is:

- » cash;
- » equity of another entity;
- » a contractual right to receive cash or another financial asset
- » a contractual right to exchange financial assets or financial liabilities under conditions that are potentially favourable; or
- » a contract that will or may be settled in the entity's own equity instruments and is not settled 'fixed-for-fixed'.

An **equity instrument** is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

IFRS 9 scope exclusions (complex rules)
IFRS 9 applies to all financial instruments except…

- interests in subsidiaries, associates and joint ventures (IFRS 10, IAS 27, IAS 28)
- rights and obligations under leases (IAS 17)
- employee benefits (IAS 19)
- own equity instruments (IAS 32)
- insurance contracts (IFRS 4)
- forward contracts that will result in a business combination (IFRS 3)
- loan commitments – except (ie the loan commitments listed below are in the scope of IFRS 9):
  - those designated at fair value through profit or loss
  - loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
  - commitments to provide a loan at a below-market interest rate
- share-based payment transactions (IFRS 2)
- rights to payments to reimburse the entity for expenditure required to settle a liability recognised as a provision (IAS 37)
- rights and obligations within the scope of IFRS 15 *Revenue from Contracts with Customers* that are financial instruments

Is each item below a financial liability in the scope of IFRS 9?

Choose one of: 1) Yes; 2) No; or 3) it depends.

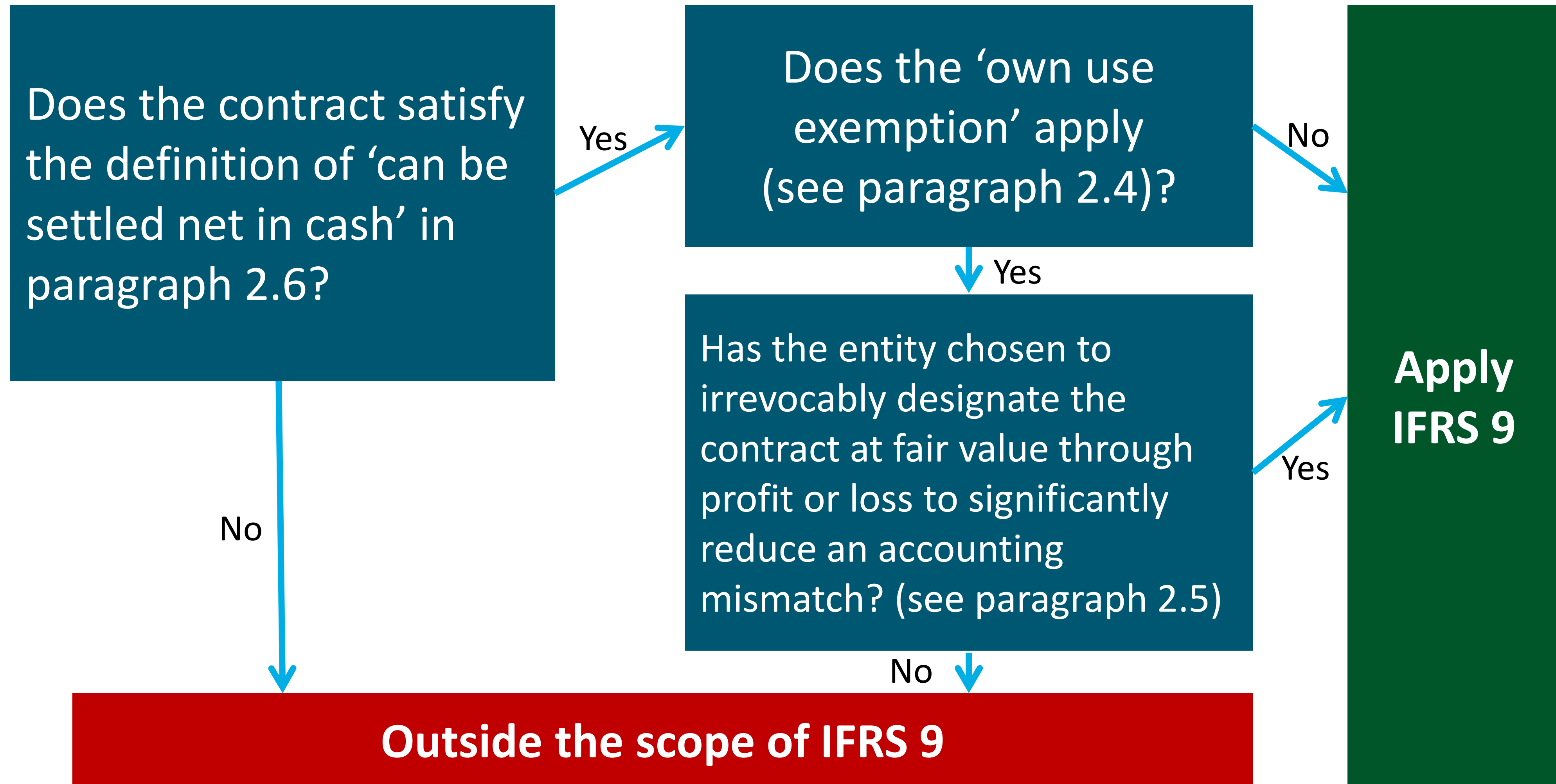
A. Bank's loan to its customer
B. Bank's possible obligation (ie subject to legal proceedings) to settle Payment Protection Insurance (PPI) mis-selling claims
C. Bank's statutory obligation to pay $1 billion income tax
D. Bank's contractual obligation to make lease payments
E. Bank's contractual obligation to pay specified bonuses to its employees
F. Bank's contractual obligation to settle share appreciation rights issued to its employees
G. Bank's 'out of the money' commitment to lend $1 million at 1% for 10 years

Is each item below a financial asset in the scope of IFRS 9?

Choose one of: 1) Yes; 2) No; or 3) it depends.

A. Cash denominated in the Bank's functional currency
B. Cash denominated in a foreign currency
C. Bank's holding of 100,000 BP plc ordinary shares
D. Contractual right (and obligation) to exchange (ie Bank to pay $125 million to receive £100 million from the counterparty) six months after the Bank's reporting date.
   » If the Bank were today (the reporting date) to enter into a contract for the receipt of £100 million six months after the reporting date, the contract would specify delivery of $150 million.

IFRS 9 scope inclusions (complex rules): contracts to buy or sell a non-financial that must be settled gross by physical delivery (ie cannot be settled net in cash)



Test your understanding definition of a financial liability

Is each item below a financial liability in the scope of IFRS 9?

Choose one of: 1) Yes; 2) No; or 3) it depends.

A. Bank's party to an 'out of the money' fixed price contract to buy 1 million ounces of gold that **must be settled net in cash** on 31/12/2018

B. Bank's party to an 'out of the money' fixed price contract to buy 1 million ounces of gold that must be settled by **physical delivery** on 31/12/2018

C. Bank's party to an 'out of the money' fixed price contract to buy 1 million barrels of brent crude oil that must be settled by **physical delivery** on 31/12/2018

D. Bank's party to an 'out of the money' fixed price contract to buy 1 million tonnes of pine chips that must be settled by **physical delivery** on 31/12/2018

E. Bank's party to an 'out of the money' fixed price contract to buy 1 million tonnes of pine chips that it can choose to settled by **physical delivery or net in cash** on 31/12/2018

Embedded derivatives

Financial instruments
embedded derivatives: comparing IFRS 9 and IAS 39

	IAS 39	IFRS 9
Principle: bifurcate embedded derivatives from their host contracts…	…except when either (rules): • the hybrid contract in its entirety is designated FVPL; or • closely related exception etc applies.	…(same as IAS 39), except (another rule) also do not bifurcate when the derivative is embedded in a financial asset host that is in the scope of IFRS 9.

An embedded derivative:

» is a component of a hybrid contract that also includes a non-derivative host—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative

» causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Notes:

» a derivative is: a financial instrument whose value changes in response to the underlying; requires little or no net investment; and is settled at a future date.

» a derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative, but a separate financial instrument.

IFRS 9: embedded derivatives decision tree (to navigating the labyrinth of rules)

Does the hybrid contract contain: (i) a host that is an **asset** within the scope of IFRS 9; and (ii) a derivative—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative? (paragraph 4.3.2)

Yes → Apply IFRS 9 classification paragraphs 4.1.1–4.1.5 to the entire hybrid contract

No → Are all three of the following conditions satisfied? (paragraph 4.3.3)

- **Condition 1:** economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host (see paragraphs B4.3.5 and B4.3.8)
- **Condition 2:** a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative
- **Condition 3:** the hybrid contract is not measured at FVTPL (ie a derivative that is embedded in a financial liability at FVTPL is not separated)

No → Apply IFRS 9 classification paragraphs 4.1.1–4.1.5 to the entire hybrid contract

Yes → Does the hybrid contract qualify for and has the entity designated it at FVPL? (see paragraphs 4.3.5, B4.3.9 and B4.3.10)

- Yes → Apply IFRS 9 classification paragraphs 4.1.1–4.1.5 to the entire hybrid contract
- No → Separate the embedded derivative from host and apply paragraphs 4.1.1–4.1.5 separately to each part

IFRS 9: embedded derivative example

Entity (a venture capital provider) provides a subordinated loan to Borrower (a start-up in the IT sector) under a contract that specifies that if and when Borrower lists its shares on a stock exchange, Entity is entitled to receive Borrower shares (that equates to 2% of Borrower's share capital) free (an '**equity kicker**') in addition to the contractual payments.

Must Entity separate the equity kicker from the hybrid host instrument? Choose one of:

1) Yes, it must separate the equity kicker from its hybrid host and account for it separately
2) No, the hybrid contract contains a host that is an asset within the scope of IFRS 9
3) No, one or more of the three conditions specified in paragraph 4.3.3 are not satisfied
4) Yes (although the hybrid contract does not contain a host that is an asset in the scope of IFRS 9 and the 3 conditions in paragraphs 4.3.3 are satisfied) the prohibitions in paragraph 4.3.5 prevent Entity from electing to designate the entire hybrid contract at FVPL
5) It depends (although the hybrid contract does not contain a host that is an asset in the scope of IFRS 9, and the 3 conditions in paragraphs 4.3.3 are satisfied, and neither of the prohibitions in paragraph 4.3.5 apply, and Entity can measure reliably the fair value of the equity kicker) Borrower can elect to designate the entire hybrid contract at FVPL

Reference: paragraphs 4.3.1 and 4.3.2 of IFRS 9

IFRS 9: embedded derivative example (continued)

Entity (a venture capital provider) provides a subordinated loan to Borrower (a start-up in the IT sector) under a contract that specifies that if and when Borrower lists its shares on a stock exchange, Entity is entitled to receive Borrower shares (that equates to 2% of Borrower's share capital) free (an '**equity kicker**') in addition to the contractual payments.

Must Borrower separate the equity kicker from the hybrid host instrument? Choose one of:

1) Yes, it must separate the equity kicker from its hybrid host and account for it separately
2) No, the hybrid contract contains a host that is an asset within the scope of IFRS 9
3) No, one or more of the three conditions specified in paragraph 4.3.3 are not satisfied
4) Yes (although the hybrid contract does not contain a host that is an asset in the scope of IFRS 9 and the 3 conditions in paragraphs 4.3.3 are satisfied) the prohibitions in paragraph 4.3.5 prevent Borrower from electing to designate the entire hybrid contract at FVPL
5) It depends (although the hybrid contract does not contain a host that is an asset in the scope of IFRS 9 and the 3 conditions in paragraphs 4.3.3 are satisfied and neither of the prohibitions in paragraph 4.3.5 apply) Borrower can elect to designate the entire hybrid contract at FVPL

Reference: paragraphs 4.3.1 to 4.3.7 and B4.3.1 to B4.3.12 of IFRS 9

IFRS 9 and IAS 39:
major differences

First: understand the main types of IFRS requirements and the judgement mindsets necessary to apply them

Types of general purpose financial reporting requirements

- **Principle:** deeply rooted in the objective of GPFI; consistent with the qualitative characteristics and elements; designed to reflect faithfully relevant information about the underlying economic phenomenon.
- **Notion:** codifications of old and sometimes newly invented conventions that are not deeply rooted in the objective and concepts. Consequently, rules are needed to specify their application.
- **Rule:** an explicit requirement the application of which requires little, if any, judgement.

Judgement mindsets for applying general purpose financial reporting requirements

- **Principle:** a clear objective-focussed critical-thinking mindset aiming to reflect faithfully relevant information about the underlying economic phenomenon.
- **Notion:** the Basis for Conclusions provides the context for developing the mindset for making judgements when applying a notion.
- **Rule:** the ‘judgement’ mindset is blind rigidity rather than critical thinking.

Financial liabilities

Accounting for financial liabilities
IFRS 9 is largely same as IAS 39. However: (slide 1 of 2 slides)

- IFRS 9 changes the timing of the recognition of gains or losses on debt modifications
  - like IAS 39 under IFRS 9 compute the debt-modification gain or loss by comparing the modification-date present values of the modified cash flows with the unmodified cash flows (both computed using the original effective interest rate). However, the gain or loss is recognised as income or expense:
    - **IFRS 9:** at the modification date
    - **IAS 39:** over the remaining life of the liability by subsuming it in the debt's modified effective interest rate

Accounting for financial liabilities IFRS 9 is largely same as IAS 39. However: (slide 2 of 2 slides)

- Unlike IAS 39, IFRS 9 specifies OCI presentation for own credit risk change effects of financial liabilities designated as at FVPL.
- Note: such OCI presentation does not apply:
  - to recognised loan commitments and financial guarantee contracts designated FVPL
  - when OCI classification would create or enlarge an 'accounting mismatch'
  - to financial assets at FVPL that were NOT designated at FVPL (typically derivatives)

Financial liabilities at FVPL
presentation of effects of changes in own credit risk

	IFRS 9	IAS 39
Present the part of the change in the FV of financial liabilities designated FVPL that is attributed to changes in 'own credit' risk in…	OCI (ie separately from other components of the change in FV in the period which are typically presented in profit or loss)	profit or loss (ie included in the total change in FV in the period)

Note: this presentation requirement of IFRS 9 can be adopted early without also adopting early any other part of IFRS 9!

Own credit risk downgrade: mini case study presentation: what do you think?

A. Is IAS 39's requirement to present in profit or loss the total fair value change in liabilities carried at fair value, including the effect of any change in 'own credit risk': (1) a principle; (2) a notion; or (3) a rule?

B. Is IFRS 9's requirement to present in other comprehensive income (OCI) the part of the fair value change attributed to changes in the entity's own credit risk: (1) a principle; (2) a notion; or (3) a rule?

C. Are IFRS 9's requirements for measuring the effect of a change in own credit risk: (1) a principle; (2) a notion the application of which is constrained by specific rules?; or (3) a rule?

D. Is presenting in OCI for the first-time own-credit-risk change effects on liabilities a change in accounting policy: (1) yes; or (2) no?

Own credit risk downgrade: mini case study the economics

- **Transaction:** On 30/12/2017, Z receives $500 million in exchange for a promise to pay $1,000 million on 30 December 2027.
- **Event:** On 31/12/2017, Z's credit rating is downgraded. Consequently:
  - Z's market capitalisation fell by $2,000 million
  - the fair value of Z's debt fell by $200 million (ie from $500 million to $300 million) because lenders demand greater returns from entities they perceive to be more risky
  - (note: on 31/12/2017 Z could extinguish the debt by buying it for $300 million)
- What is **relevant information** for primary users? Can it be faithfully represented?
- **Economics:** On 31/12/2017 (using Z's market cap as a measure of equity)
  - **before** the downgrade: net assets $5,000 million = equity $5,000 million
  - **downgrade:** net assets ↓$2,000 million and equity ↓$2,000 million
  - **after** downgrade: net assets $3,000 million = equity $3,000 million

Own credit risk downgrade: mini case study accounting in accordance with IFRS 9 and IAS 39

- Scenario A: fair value model applies to all Z's assets and to all its liabilities:
  - **before** the downgrade: net assets $5,000 million = equity $5,000 million
  - **downgrade:** net assets ↓$2,000 million and equity ↓$2,000 million
  - **after** downgrade: net assets $3,000 million = equity $3,000 million
- Scenario B: cost model applies to all Z's assets and to all its liabilities:
  - **before and after** the downgrade event: net assets $1,000 million = equity $1,000 million.
- Scenario C: fair value model applies to Z's liabilities but cost model applies to its assets:
  - **before** the downgrade: net assets $1,000 million = equity $1,000 million
  - **downgrade:** net assets ↑CU200 million and equity ↑CU200 million
  - **after downgrade:** net assets $1,200 million = equity $1,200 million

Own credit risk downgrade: mini case study accounting: what do you think?

- Which accounting would most faithfully represent the economics of the downgrade event: (1) Scenario A; (2) Scenario B; or (3) Scenario C?
- Is the requirement (IAS 39 and IFRS 9) for Z to recognise $200 million income from the fair value change effect on its liabilities when its credit rating is downgraded: (1) a principle; (2) a notion; or (3) a rule?
- Is it anomalous that the downgrade event results in Z recognising $200 million income from the remeasurement of its debt when its market capitalisation (a measure of equity/net assets) likely falls?
- What are the root causes of this anomaly?
- What judgements would Z's management make in accounting for the acquisition of the treasury shares?

Financial assets

Recognition and derecognition (IAS 39 and IFRS 9)

Recognition: when party to the contractual provisions of the instrument (principle)

Derecognition: an eclectic approach driven by vague notions and complex rules

Classification and measurement

IFRS 9: classification on the basis of notions about cash flow characteristics and business models

IAS 39: an eclectic and complex rules-based classification approach

Impairment

IFRS 9: point-in-time ‘**expected** loss’ model (**notion**)

IAS 39: point-in-time ‘**incurred** loss’ model (**notion**)

Hedge accounting (IAS 39’s and IFRS 9’s override ‘normal’ accounting)

IAS 39: an inflexible and complex rules-based approach

IFRS 9: aligns accounting with risk management practices (notion)

Financial instruments
initial recognition: comparing IFRS 9 and IAS 39

	IFRS 9	IAS 39
Recognition	Principle: recognise a financial asset or financial liability when the reporting entity becomes a party to the contractual provisions of the instrument Option for regular way purchases: ‘trade date accounting’ or ‘settlement date accounting’. Mandatory rules: non-recognition of some financial guarantee contracts and some commitments to lend except to the extent that they are onerous (a notion)	

- Principle: initially measure a financial asset/financial liability at its fair value (FV).
- IFRS 9 and IAS 39 specify exceptions. For example:
  - Rule: when in accordance with IFRS 15 *Revenue from Contracts with Customers* trade receivables are measured initially at their transactions price which differs from FV, (for example, when the practical expedient in paragraph 63 of IFRS 15 applies).
  - Rule: when FV on initial recognition does not equal transaction price and FV is not Level 1 or ‘upper’ Level 2 (ie only observable inputs), then defer recognition of ‘day-1 gain’.
- Principle: transactions costs are an expense.
- IFRS 9 and IAS 39 specify exceptions. For example:
  - Rule: if not subsequently measured at FV through profit or loss add/(deduct) transactions costs to/(from) a financial asset’s/(financial liability’s) initial FV.

Financial asset and financial liability subclassification subclassification: comparing IFRS 9 and IAS 39

	IFRS 9	IAS 39
Amortised cost (AC) categories	✓ financial assets contractual cash flows that are 'solely payments of principle and interest' (SPPI) (notion) & business model = 'hold to collect' ✓ financial liabilities not FVPL	✓ Held-to-Maturity (HTM) (rules) Loans-and-Receivables (LAR) (rules) financial asset debt instruments; ✓ financial liabilities not HFT
Fair value (FV) through profit or loss (PL)	✓ financial assets that fail the SPPI test; or pass the SPPI test and business model (notion) = HFT + derivatives + the FV option; ✓ financial liabilities HFT + derivatives + the FV option	✓ Held-for-Trading (HFT) financial assets and ✓ Held-for-Trading (HFT) financial liabilities (including derivatives and when the FV option is used)
FVOCI	✓ financial asset equity instruments that are not HFT and, on initial recognition, are designated FVOCI	✓ Available-for-Sale (AFS) (rules): the residual financial asset category for debt and equity instruments
Hybrid: FVOCI (but AC in PL)	✓ financial asset debt instruments that pass the SPPI test and business model = 'collect and sell'	

Financial asset and financial liability subclassification FV option and reclassification: comparing IFRS 9 and IAS 39

	IFRS 9	IAS 39
Fair value through profit or loss (FVPL) option	✓ severely restricted for financial assets and for financial liabilities; ✓available for qualifying contracts to buy or sell a non-financial item.	✓ largely unrestricted for financial assets and for financial liabilities
Reclassification	✓ restricted to the demonstrable occurrence of a fundamental change in business model (notion)	✓ based on intention (notion) other than the very strict ‘tainting rules’ that trigger mandatory reclassification from HTM to HFT

Financial instrument measurement measurement: comparing IFRS 9 and IAS 39

<table>
<tr><th></th><th>IFRS 9</th><th>IAS 39</th></tr>
<tr><td>Fair value</td><td colspan="2">✓ principle: the amount that would be received to sell an asset (or paid to transfer a liability) in an orderly transaction between market participants at the measurement date.
A few rules. For example:
• unit of account is the individual financial instrument
• ‘Level 1’ FV = price x quantity (no adjustments)</td></tr>
<tr><td>Amortised cost</td><td>✓ notions:
• effective interest rate
• credit-adjusted effective interest rate</td><td>✓ notion: effective interest method</td></tr>
<tr><td>Historical cost</td><td></td><td>✓rule: reliability of measurement exemption from carrying some equity instruments at their fair value</td></tr>
</table>

- Classify whole instrument (ie no bifurcation of financial assets) on the basis of:
  - cash flow characteristics (notion); and
  - observable business model (notion) within which the financial assets are being managed (not based on intent for individual asset).
- Reclassify consistent with how the assets are being managed
  - reclassify only when the observable business model for managing financial assets changes.

IFRS 9 financial assets classification and measurement

	Business model (notion) = hold to collect	Business model = hold to collect and sell	Other business models (eg held for trading)	**FVPL option** available to avoid an **accounting mismatch**	**FVOCI option** available for **equity** not held for trading
Cash flows: solely payments of principal and interest (SPPI) (notion)	Measurement: amortised cost (AC) (notion)	FV through other comprehensive income (OCI) (but with AC in PL)	FVPL	FVPL	
Other types of cash flows	Measurement: fair value (FV) through profit or loss (PL) (principle)	FVPL	FVPL		FVOCI

IAS 39 financial assets classification and measurement

Category	Measurement
Financial assets at fair value through profit or loss (FVPL) Financial assets that are held for trading (HFT) by definition (including held for short-term profit taking and derivatives that are not financial guarantee contracts) or by designation at initial recognition	FVPL (principle)
Held-to-maturity investments (HTM) Non-derivative financial asset with: fixed or determinable payments and fixed maturity, other than loans and receivables for which there is a positive intention and ability to hold to maturity and which have not been designated FVPL	Amortised cost (notion)
Loans and receivables (LAR) Non-derivative financial asset with: fixed or determinable payments that are not quoted in an active market, are not HFT and have not been designated at FVPL or AFS	
Available-for-sale (AFS) Non-derivative financial asset that are designated as AFS or are not FVPL, HTM or LAR	FV (principle) OCI (rule)

IFRS 9 financial assets presentation of financial performance

Measurement model	Interest or dividends	Impairment	Foreign exchange	Change in FV	Recycling OCI to PL?
Amortised cost	PL: effective interest rate	PL	PL		
Fair value (FV) profit or loss (PL)	PL	PL	PL	PL (incl. forex and 'impairment')	
FVOCI: debt	PL (measured and presented on the basis of amortised cost accounting, see above)			OCI (value change adjusted by items recognised in PL)	Yes
FVOCI: equity	PL: dividends	OCI	OCI	OCI (incl. forex and 'impairment')	No

IAS 39 financial assets: presentation of financial performance (assume: fair value measured reliably)

Classification: measurement	Interest and dividends	Impairment	Foreign exchange	Change in FV	Recycling OCI to PL?
Held-to-maturity: amortise cost	PL: effective interest rate	PL	PL		
Loans and receivables: AC	PL: effective interest rate	PL	PL		
Fair value (FV) profit or loss (PL)	PL	PL	PL	PL (incl. forex and 'impairment')	
Available-for-sale: FV	PL: dividends	PL	OCI	OCI (incl. forex but excl. impairment)	Yes

Financial asset impairment comparing IFRS 9 and IAS 39 measurements

	IFRS 9	IAS 39
Impairment methodology	Expected credit losses (ECLs) (notion and complex rules)	Incurred loss model (notion and complex rules)
Impairment thresholds: general model	A significant increase in credit risk (notion and practical expedient rules) triggers move from 12-month ECLs to lifetime ECLs	Impairment event (rule) triggers recognition of incurred impairment loss
Measurement: cash flows	Updated future cash flows regarding expected impairment events over next 12-months or instrument lifetime (notion)	Updated future cash flows regarding incurred impairment events (rule)
Discount rate	Original effective interest rate (rule)	Original effective interest rate (rule)
Unrecognised loan commitments	Apply IFRS 9's impairment requirements (notions and complex rules)	Apply IAS 37's onerous contract requirements (notion)

Financial instruments
comparing derecognition in IFRS 9 and IAS 39

<table>
<tr><th>Derecognition of :</th><th>IFRS 9</th><th>IAS 39</th></tr>
<tr><td>financial assets</td><td colspan="2">Principle, notions and complex rules</td></tr>
<tr><td>financial liabilities</td><td colspan="2">Principle, notions and complex rules</td></tr>
</table>

Hedge accounting
hedge accounting methods: comparing IFRS 9 and IAS 39

	IFRS 9	IAS 39
Cash flow hedge accounting	✓ notions and complex rules	✓ notions and complex rules
Fair value hedge accounting	✓ notions and complex rules	✓ notions and complex rules
Hedge of a net investment in a foreign operation	✓ notions and complex rules	✓ notions and complex rules

Note: after adopting IFRS 9, an entity can elect (an accounting policy choice) to continue using IAS 39 hedge accounting. A practical expedient while new marco hedge accounting model is being developed. Expectation: nearly all banks will use this election.

Transitioning
from IAS 39 to IFRS 9

IFRS 9 Financial Instruments
effective date, transition principle and transition rules

Applying IFRS 9 for the first time	
Effective date	• Mandatory application for periods beginning on or after 1 January 2018. • Early application is permitted of either: (i) IFRS 9 as a whole; or (ii) only the ‘change in own credit effects’ OCI presentation for liabilities carried at FV. • IFRS 9 option to continue with all or particular IAS 39 hedge accounting requirements. • Deferral and overlay approach for only qualifying insurers (including first-time adopters) with a fixed expiry date of period beginning on or after 1 January 2021.
Transition principle:	retrospective application (in accordance with IAS 8)
Transitional provisions	Many rules to facilitate transition from IAS 39 to IFRS 9: some mandatory and others optional.

Source: paragraphs 7.1.1, 7.1.2, 7.2.1 and 7.2.21 of IFRS 9

» In 2017 and before, unknowingly in contravention contravention of IAS 39, Entity did not account separately for material derivatives embedded in contracts with its suppliers.

» In 2018, for the first time, Entity:

  » applies IFRS 9 retrospectively; and

  » in accordance with IFRS 9, correctly accounts separately for embedded derivatives and their host contracts.

» The restatement of prior periods accounting (ie comparative figures in the 2018 financial statements) for embedded derivatives must be presented as? Choose one of:

1) part of the change of accounting policy from applying IFRS 9 for the first time;
2) a change in accounting estimate;
3) a change in classification; or
4) the correction of a prior period error.

IFRS 9 Financial Instruments
periods before applying IFRS 9

In periods before applying IFRS 9, IAS 8 requires disclosure of:

- the fact that IFRS 9 *Financial Instruments* is issued but not yet applied;
- that its application is required for periods beginning on or after 1 January 2018;
- the date by which the entity plans to apply it; and
- known or reasonably estimable information relevant to assessing its possible impact on financial statements in the period of initial application, including:
  - the nature of the consequent accounting policy changes; and either:
    - a discussion of the expected impacts of initial application on the entity's financial statements; or
    - if that impact is not known or reasonably estimable, a statement to that effect.

Interim reporting: if it is impracticable (see IAS 8) to do so, an entity need not apply IFRS 9 to interim periods before the date of initial application.

Source: paragraphs 30 and 31 of IAS 8 and paragraph 7.2.16 of IFRS

IFRS 9 Financial Instruments regulatory guidance

For example, Basel Committee Report of the Enhanced Disclosure Task Force (EDTF): Impact of Expected Credit Loss Approaches on Bank Risk Disclosure (November 2015)

The report aims to achieve greater consistency and comparability in the banking sector by encouraging specific disclosures on IFRS 9.

The report requires the provision of clear and sufficiently granular explanations about the concepts and estimation techniques used.

As with their 2012 report, EDTF explain that their considerations have been developed with large international banks in mind, although they should be equally applicable to other banks that actively access the major equity or debt markets

Source: http://www.fsb.org/wp-content/uploads/Impact-of-expected-credit-loss-approaches-on-bank-risk-disclosures.pdf

IFRS 9 Financial Instruments regulatory guidance

Basel Committee on Banking Supervision (December 2015): Guidance on Credit Risk and Accounting for Expected Credit Losses

In order to promote high-quality implementation of the impairment model, the BCBS set out supervisory guidance on sound credit risk practices associated with the implementation and ongoing application of expected credit loss (ECL) accounting. The guidance is structured around 11 principles:

- 8 principles for credit risk and accounting for expected credit losses
- 3 principles for the evaluation of credit risk practices, accounting for expected credit losses and capital adequacy

Source: Guidance on credit risk and accounting for expected credit losses, Basel Committee for Banking Supervision, December 2015, http://www.bis.org/bcbs/publ/d350.pdf

IFRS 9 Financial Instruments regulatory notifications

For example, ESMA (November 2016): Public Statement: Issues for consideration in implementing IFRS 9
ESMA expects that: • quality of the implementation of IFRS 9 will be closely monitored by audit committees • its Public Statement will be taken into account and reflected in the 2016 and 2017 annual and 2017 interim financial statements
ESMA highlights that non-financial entities can also benefit from the changes made to the hedge accounting requirements that align hedge accounting and risk management and apply these new principles to a broader set of risk components. ESMA is thus of the view that all type of issuers need to carefully assess the impact of IFRS 9 in their particular circumstances when implementing the Standard.

Source: https://www.esma.europa.eu/sites/default/files/library/2016-1563_public_statement-issues_on_implementation_of_ifrs_9.pdf

IFRS 9 Financial Instruments industry guidelines

For example, EBA (May 2017) Final Report: Guidelines on Credit Institutions' Credit Risk Management Practices and Accounting for Expected Credit Losses
The EBA guidelines build on the BCBS guidance, aiming to: • ensure sound credit risk management practices for credit institutions, associated with the implementation and ongoing application of ECL accounting models • establish consistent, efficient and effective supervisory practices within the European System of Financial Supervision ('ESFS').
The guidelines will apply at the start of the first accounting period beginning on or after 1 January 2018.

Source: http://www.eba.europa.eu/documents/10180/1842525/Final+Guidelines+on+Accounting+for+Expected+Credit+Losses+%28EBA-GL-2017-06%29.pdf

IFRS 9 Financial Instruments industry guidelines

For example, EBA (May 2017) continued…
Final Report: Guidelines on Credit Institutions' Credit Risk Management Practices and Accounting for Expected Credit Losses

The EBA guidelines include:

- general considerations on the application of the principles of proportionality and materiality, and the use of information by credit institutions.
- eight principles which relate to the provisions for the main elements of credit risk management and accounting for ECL, and provide detailed guidance for the application of each principle.
- guidance specific to credit institutions reporting under IFRS and is limited to providing guidance on certain aspects of the ECL requirements in the impairment section of IFRS 9 that may not be common to other ECL accounting frameworks.
- three principles on the supervisory evaluation of credit risk management practices, accounting for ECL and the overall capital adequacy.

Source: http://www.eba.europa.eu/documents/10180/1842525/Final+Guidelines+on+Accounting+for+Expected+Credit+Losses+%28EBA-GL-2017-06%29.pdf

IFRS 9 Financial Instruments transitional provisions: retrospective application

Retrospective application in accordance with IAS 8. However:	disclosure
• mandatory exception from retrospective application for items derecognised before the date of initial application (ie IFRS 9 does not apply to such items)	
• (an entity can restate prior periods only if it is possible without the use of hindsight) but can nevertheless choose not to restate comparatives and present the cumulative effect of the change in accounting policy as an adjustment to opening equity at the date of initial application	IFRS 7.42L-42O
• if comparative information is restated for a hybrid contract measured at FV under IFRS 9 (that was bifurcated under IAS 39): mandatory to use as the FV of the hybrid in the IFRS 9 comparatives the sum of the fair value of its components. And to present directly in the opening equity of the reporting period that includes the date of initial application, the difference between the fair value of: (i) the whole; and (ii) the sum of the fair value of its parts.	

Source: paragraphs 7.2.1, 7.2.6, 7.2.7 and 7.2.15 of IFRS 9

Test your understanding
Hybrid contracts (financial asset host contract)

- In its 31 December 2017 financial statements, in accordance with IAS 39, Entity accounted separately for the two components of a hybrid financial instrument:
  - financial asset host contract (a loan): carrying amount = $1,000 amortised cost and disclosed fair value = $1,100 asset
  - embedded derivative (an equity kicker): carrying amount =$50 asset
- In accordance with IFRS 9, in its 2018 financial statements Entity accounts for the hybrid instrument as a whole at its fair value. Entity measures the fair value of the hybrid at $1,160 as at 31 December 2017.
  - **Scenario A:** in its 2018 financial statements, Entity retrospectively restates its comparative figures.
  - **Scenario B:** in its 2018 financial statements, Entity does NOT restate its comparative figures.

Test your understanding
Scenario A: Entity retrospectively restates its comparative figures

In its 2018 financial statements (including comparative figures for 2017) how must Entity present the hybrid financial instrument and/or its components? Choose one of:

1) in the 2018 statement of financial position present the hybrid financial asset at its fair value (and restate the comparative information to present the hybrid at $1,160);
2) in the 2018 statement of financial position present the hybrid financial asset at its fair value (and restate the comparative information to present the hybrid at $1,150); and in the statement of changes in equity present directly in opening equity of 2018 $10 remeasurement of hybrid on applying IFRS 9;
3) in the 2018 statement of financial position present the hybrid financial asset at its fair value (and do NOT restate the comparative information, ie present the $1,000 loan asset separately from the $50 derivative asset); and in the statement of changes in equity present directly in opening equity of 2018 $110 remeasurement of hybrid on applying IFRS 9; or
4) in the 2018 statement of financial position present the hybrid financial asset at its fair value (and restate only the measurement in the comparative information, ie present the $1,100 loan asset separately from the $50 derivative asset); and in the statement of changes in equity present directly in opening equity of 2018 $10 remeasurement of hybrid on applying of IFRS 9.

Test your understanding
Scenario B: Entity does NOT restate its comparative figures

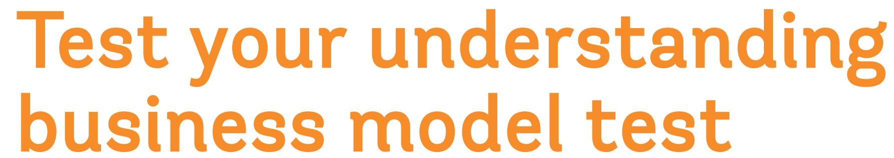
In its 2018 financial statements (including comparative figures for 2017) how must Entity present the hybrid financial instrument and/or its components? Choose one of:

1) in the 2018 statement of financial position present the hybrid financial asset at its fair value (and restate the comparative information to present the hybrid at $1,160);
2) in the 2018 statement of financial position present the hybrid financial asset at its fair value (and restate the comparative information to present the hybrid at $1,150); and in the statement of changes in equity present directly in opening equity of 2018 $10 remeasurement of hybrid on applying IFRS 9;
3) in the 2018 statement of financial position present the hybrid financial asset at its fair value (and do NOT restate the comparative information, ie present the $1,000 loan asset separately from the $50 derivative asset); and in the statement of changes in equity present directly in opening equity of 2018 $110 remeasurement of hybrid on applying IFRS 9; or
4) in the 2018 statement of financial position present the hybrid financial asset at its fair value (and restate only the measurement in the comparative information, ie present the $1,100 loan asset separately from the $50 derivative asset); and in the statement of changes in equity present directly in opening equity of 2018 $10 remeasurement of hybrid on applying of IFRS 9.

IFRS 9 Financial Instruments transitional provisions: classification and measurement

Retrospective application in accordance with IAS 8. However (continued):	disclosure
• mandatory use of facts and circumstances at the date of initial application for applying the business model test and apply that financial asset subclassification retrospectively without considering possible past business model changes	
• if, at the date of initial application, it is impracticable to assess a modified time value element on the basis of facts and circumstances at initial recognition: mandatory to perform the SPPI test ignoring the requirements related to the modification of the time value of money element in B4.1.9B-B4.1.9D	IFRS 7.42R
• if, at the date of initial application, it is impracticable to assess whether the fair value of a prepayment feature was insignificant at initial recognition: mandatory to ignore the the limited exception for prepayment features in the SPPI test	IFRS 7.42S

Source: paragraphs 7.2.1 and 7.2.3 to 7.2.5 of IFRS 9



Test your understanding business model test

- Entity's financial assets, at its date of initial application of IFRS 9 (01/01/2018), include a portfolio of legacy fixed-rate government and corporate debt instruments acquired by its now defunct fixed-income speculative operations whose operations ceased in a corporate restructuring in late 2017.
- Management has assessed the instruments in the portfolio to all pass IFRS 9's SPPI test.
- To determine how the instruments should be classified in Entity's 2018 financial statements consider the following unrelated Scenarios at 01/01/2018 (each of which is expected to continue for the foreseeable future):
  - **Scenario A:** Portfolio now held and managed only to collect their contractual cash flows.
  - **Scenario B:** Treasury department now manages the portfolio to meet its everyday liquidity needs. In seeking to minimise the costs of managing those liquidity needs it actively manages the return on the portfolio by collecting contractual payments and frequently selling financial assets to reinvest in higher yielding financial assets or to better match the duration of its liabilities.

Test your understanding: Scenario A instruments managed only to collect their contractual cash flows

For the purpose of preparing Entity's 2018 financial statements, in accordance with IFRS 9, Entity's business model for the portfolio is?

Choose one of:

1) hold to collect contractual cash flows from 01/01/2018 (before that held for trading);
2) hold to collect contractual cash flows since the instruments were acquired (ie apply business model at 01/01/2018 retrospectively);
3) hold to collect and sell from 01/01/2018 (before that held for trading);
4) hold to collect and sell since the instruments were acquired (ie apply business model at 01/01/2018 retrospectively); or
5) other, ie held for trading since the instruments were acquired (cannot reclassify after initial determination).

For the purpose of preparing Entity's 2018 financial statements, in accordance with IFRS 9, Entity's business model for the portfolio is?

Choose one of:

1) hold to collect contractual cash flows from 01/01/2018 (before that held for trading);
2) hold to collect contractual cash flows since the instruments were acquired (ie apply business model at 01/01/2018 retrospectively);
3) hold to collect and sell from 01/01/2018 (before that held for trading);
4) hold to collect and sell since the instruments were acquired (ie apply business model at 01/01/2018 retrospectively); or
5) other, ie held for trading since the instruments were acquired (cannot reclassify after initial determination).

IFRS 9 Financial Instruments transitional provisions: classification and measurement

Retrospective application in accordance with IAS 8. However, at the date of initial application (on the basis of circumstances at that date), the entity:

- is permitted to irrevocably designate (and apply such redesignation retrospectively):
  - a financial asset as at FVPL if doing so eliminates an accounting mismatch
  - an investment in an equity instrument as at FVOCI if it is neither held for trading nor contingent consideration recognised by an acquirer under IFRS 3 *Business Combinations*
  - a financial liability as at FVPL if doing so eliminates an accounting mismatch
- is permitted to revoke its previous designation of a financial asset or a financial liability as at FVPL and it must do so if it no longer eliminates an accounting mismatch (and apply such redesignation retrospectively)
- is required to assess whether recognising 'own credit risk' change effects of a financial liability as at FVPL in OCI creates or enlarges an accounting mismatch (and if so, recognises all gains and losses on that liability in PL, including own credit risk effects)

Source: paragraphs 7.2.1, 7.2.8 to 7.2.10 and 7.2.14 of IFRS 9

Test your understanding irrevocable designations

» Entity's financial assets, at its date of initial application of IFRS 9 (01/01/2018), include the following instruments:

A. a financial asset debt-instrument that, on the basis of facts and circumstances at 01/01/2018, passes the SPPI and business model test to qualify for amortised cost accounting.
B. a financial asset equity-instrument that, on the basis of facts and circumstances at 01/01/2018, fails the SPPI test and is NOT held for trading.
C. a financial asset equity-instrument that, on the basis of facts and circumstances at 01/01/2018, fails the SPPI test and is held for trading.
D. a financial liability debt-instrument that, on the basis of facts and circumstances at 01/01/2018, qualifies for amortised cost accounting.

Test your understanding: Instrument A debt instrument asset that passes SPPI and business model tests

On the basis of facts and circumstances at 01/01/2018, if the debt instrument were carried at fair value through profit or loss (FVPL) it would eliminate an 'accounting mismatch'. In accordance with IFRS 9 how must Entity account for the debt instrument? Choose one of:

1) Amortised cost because irrevocable designation at FVPL is available only at initial recognition.
2) FVPL (mandatorily) because doing so would avoid an accounting mismatch.
3) Entity can use amortised cost or it can, at 01/01/2018, chooses to designate the instrument FVPL: then it must account for it at FVPL prospectively from the date of initial application.
4) Entity can use amortised cost or it can, at 01/01/2018, chooses to designate the instrument FVPL: then it must account for it at FVPL retrospectively from the date of initial application.

Test your understanding: Instrument B equity instrument asset that fails SPPI test and is NOT held for trading

On the basis of facts and circumstances at 01/01/2018, in accordance with IFRS 9 SPPI and business model tests the equity instrument would be carried at FVPL.

In accordance with IFRS 9, how must Entity account for the equity instrument? Choose one of:

1) Amortised cost
2) FVPL (mandatorily) on the basis of the SPPI and business model tests applied prospectively from the date of initial application.
3) FVPL (mandatorily) on the basis of the SPPI and business model tests applied retrospectively from the date of initial recognition.
4) FVPL or it can, at 01/01/2018, chooses to designate the instrument FVOCI: then it must account for it at FVOCI prospectively from the date of initial application.
5) FVPL or it can, at 01/01/2018, chooses to designate the instrument FVOCI: then it must account for it at FVOCI retrospectively from the date of initial recognition.

Test your understanding: Instrument C equity instrument asset that fails SPPI test and is held for trading

On the basis of facts and circumstances at 01/01/2018, in accordance with IFRS 9 SPPI and business model tests the equity instrument would be carried at FVPL.

In accordance with IFRS 9, how must Entity account for the equity instrument? Choose one of:

1) Amortised cost
2) FVPL (mandatorily) on the basis of the SPPI and business model tests applied prospectively from the date of initial application.
3) FVPL (mandatorily) on the basis of the SPPI and business model tests applied retrospectively from the date of initial recognition.
4) FVPL or it can, at 01/01/2018, chooses to designate the instrument FVOCI: then it must account for it at FVOCI prospectively from the date of initial application.
5) FVPL or it can, at 01/01/2018, chooses to designate the instrument FVOCI: then it must account for it at FVOCI retrospectively from the date of initial recognition.

On the basis of facts and circumstances at 01/01/2018, if the debt instrument were carried at fair value through profit or loss (FVPL) it would eliminate an 'accounting mismatch'.

In accordance with IFRS 9 how must Entity account for the debt instrument? Choose one of:

1) Amortised cost because irrevocable designation at FVPL is available only at initial recognition.
2) FVPL (mandatorily) because doing so would avoid an accounting mismatch.
3) Entity can use amortised cost or it can, at 01/01/2018, chooses to designate the instrument FVPL: then it must account for it at FVPL prospectively from the date of initial application.
4) Entity can use amortised cost or it can, at 01/01/2018, chooses to designate the instrument FVPL: then it must account for it at FVPL retrospectively from the date of initial application.

IFRS 9 Financial Instruments transitional provisions: classification and measurement

Retrospective application in accordance with IAS 8. However (continued):

- if it is impracticable (see IAS 8) for the entity to apply retrospectively the effective interest method, the entity must treat the fair value of the financial asset or financial liability at the date of initial application as the new gross carrying amount of the financial asset or the new amortised cost of the financial liability at the date of initial application of IFRS 9
  - And if the entity restates prior periods: it must treat the fair value of the financial asset or financial liability at the end of each comparative period presented as the gross carrying amount of the financial asset or the amortised cost of the financial liability.

Source: paragraphs 7.2.1 and 7.2.11 of IFRS

IFRS 9 Financial Instruments transitional provisions: classification and measurement

Retrospective application in accordance with IAS 8. However (continued):

- if an entity applying IAS 39 accounted at cost for qualifying investments in equity instruments, it must measure the initial application date fair value of such items and recognise the adjustment in opening equity of the reporting period that includes the date of initial application.
- if an entity applying IAS 39 accounted at cost for a qualifying derivative liability that is linked to, and must be settled by, delivery of an equity instrument, it must measure the initial application date fair value of such items and recognise the adjustment in opening equity of the reporting period that includes the date of initial application.

Source: paragraphs 7.2.1, 7.2.12 and 7.2.13 of IFRS 9

Test your understanding equity-instruments accounted for at cost under IAS 39

- Entity's financial assets, at its date of initial application of IFRS 9 (01/01/2018), include the following instruments that, in accordance with IFRS 9 must be accounted for at FVPL:
    A. a non-derivative financial asset investment in an unquoted equity-instrument that was, in accordance with IAS 39, accounted for at its historical cost of $1 million (fair value at 01/01/2018 = $3 million).
    B. a derivative financial asset that is linked to and must be settled by delivery of an unquoted equity-instrument that was, in accordance with IAS 39, accounted for at its historical cost $1 million (fair value at 01/01/2018 = $3 million).
    C. a derivative financial liability that is linked to and must be settled by delivery of an unquoted equity-instrument that was, in accordance with IAS 39, accounted for at its historical cost $1 million (fair value at 01/01/2018 = $3 million).

Test your understanding: Instrument A, B and C equity-instruments accounted for at cost under IAS 39

In accordance with IFRS 9 how must Entity account for each of the financial instruments? For each of A, B and C, choose one of:

1) in the 2018 statement of financial position present the equity instrument at $1 million cost (and do NOT restate the comparative information);
2) in the 2018 statement of financial position present the equity instrument at its fair value (and restate the comparative information to present it at $3 million); or
3) in the 2018 statement of financial position present the equity instrument at its fair value (and do NOT restate the comparative information, ie present the comparative information at its historical cost $1million); and in the statement of changes in equity present directly in opening equity of 2018 the $2 million remeasurement on applying IFRS 9.

IFRS 9 Financial Instruments transitional provisions: impairment

Retrospective application in accordance with IAS 8
However (continued), an entity can restate prior periods only if it is possible (without the use of hindsight) but can nevertheless choose not to restate comparatives and present the cumulative effect of the change in accounting policy as an adjustment to opening equity at the date of initial application.
To determine, at the date of initial application, whether there has been a significant increase in credit risk since initial recognition, an entity must use reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that the financial instrument was initially recognised (or for loan commitment or financial guarantee contract, when the entity first became a party to the irrevocable commitment). However… (see next slide)

Source: paragraphs 7.2.1, 7.2.15, 7.2.17 to 7.2.20, B7.2.2, B7.2.3 and B7.2.4 of IFRS 9

IFRS 9 Financial Instruments transitional provisions: impairment

Retrospective application in accordance with IAS 8

However, when applicable, the entity may instead apply:

(i) the low credit risk exemption (see paragraph 5.5.10 of IFRS 9); and

(ii) the 30 day past due rebuttable presumption (see paragraph 5.5.11 of IFRS 9).

Moreover, if at the date of initial application, determining whether there has been a significant increase in credit risk since initial recognition would require undue cost or effort, an entity must recognise lifetime ECLs at each reporting date (ie in Stage 2) until that financial instrument is derecognised (except when the low credit risk exemption applies).

Note: to perform the credit risk deterioration test at the date of initial application, an entity need only **approximate** credit risk on initial recognition on the basis of all reasonable and supportable information available without undue cost or effort.

Source: paragraphs 7.2.1, 7.2.15, 7.2.17 to 7.2.20, B7.2.2, B7.2.3 and B7.2.4 of IFRS 9

IFRS 9 Financial Instruments transitional provisions: hedge accounting

'General' hedge accounting option

On initial application of IFRS 9 an entity chooses to apply to all hedging relationships either:

- IAS 39 hedge accounting requirements; or
- IFRS 9 hedge accounting requirements.

Additional exception for 'macro hedge accounting'

An entity that chooses to apply IFRS 9's 'general' hedge accounting requirements can nevertheless choose to apply IAS 39's hedge accounting requirements for the fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities.

Source: paragraphs 6.1.3 and 7.2.1 of IFRS 9

IFRS 9 Financial Instruments transitional provisions: hedge accounting

Transition principle

Apply IFRS 9 prospectively from the date of initial application provided that all qualifying criteria are met at that date.

Practical expedient: IAS 39 hedging relationships that also qualify for IFRS 9 hedge accounting (after taking into account rebalancing on transition) must be regarded as continuing hedging relationships. Any gain or loss from rebalancing at transition is recognised in profit or loss.

Transition rules

Mandatory and optional exceptions from prospective application are specified.

Source: paragraphs 7.2.1 to 7.2.26 of IFRS 9

IFRS 9 Financial Instruments transitional provisions: optional IFRS 9 scope inclusion

At the date of initial application an entity is permitted to:

- irrevocably designate as at FVPL:
  - a pre-existing contract to buy or to sell a non-financial item that ‘can be settled net in cash or another financial instrument’, or by exchanging financial instruments (see paragraph 2.6 of IFRS 9);
  - to which the ‘own use exemption’ applies (see paragraph 2.4 of IFRS 9)
  - provided that it eliminates or significantly reduces an ‘accounting mismatch’ (see paragraph 2.5 of IFRS 9).

The change in the net assets resulting from such designations must be recognised directly in equity (retained earnings) at the date of initial application.

- An entity that uses this transitional provision must apply it to all similar contracts that exist at the date of initial application.

Source: paragraphs 7.2.1 and 7.2.14A of IFRS 9