# 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:<br>• early application of IFRS 9 is permitted (many transitional provisions)<br>• IFRS 9 is required (subject to transition exceptions and exemptions) for periods beginning on or after 1 January 2018<br>• 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

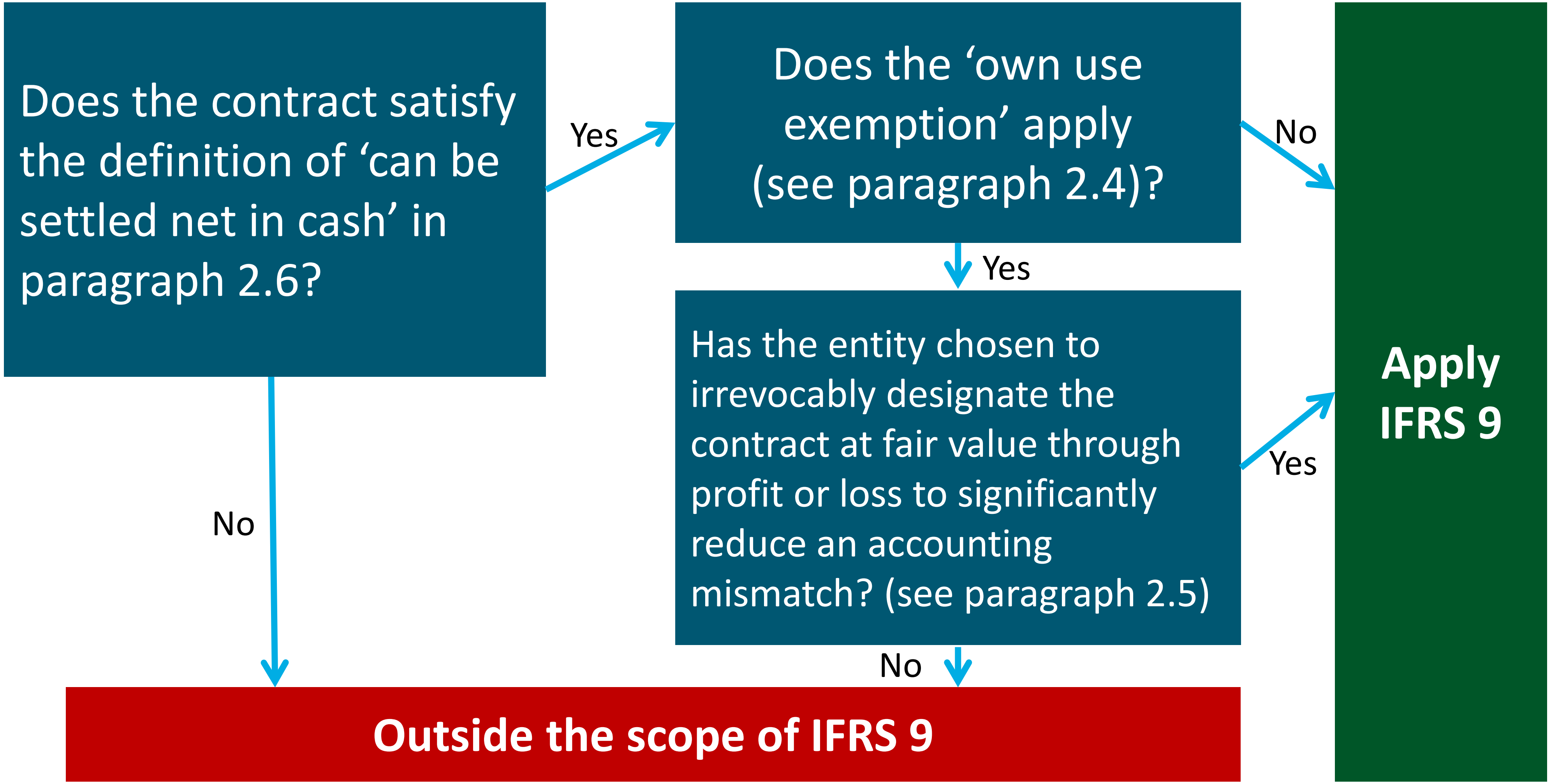
# Financial instruments scope: comparing IFRS 9 and IAS 39

| | IFRS 9 | IAS 39 |
|---|---|---|
| Principle | The Standard specifies accounting for all financial instruments. | |
| Rules: explicit scope exclusions | Exclusions are specified mainly because some or all of the accounting for particular financial instruments is specified in other Standards. | |
| Rule: explicit scope inclusion for contracts to buy or to sell a non-financial item (use FVPL accounting for such inclusions) | Applies only when the contract underlying is 'readily convertible to cash'.<br>However, exclude from IFRS 9 if the 'own use' exception applies, unless the restricted FV option is used at the inception of the contract. | However, exclude when the 'own use' exception applies, unless the FV option is used.<br>(Note: both the inclusion and the FV option are less restricted than in IFRS 9.) |

# 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

# 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)



# 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):<br>• the hybrid contract in its entirety is designated FVPL; or<br>• closely related exception etc applies. | …(same as IAS 39), <u>except</u> (another rule) also do not bifurcate when the derivative is embedded in a <u>financial asset</u> host that is in the scope of IFRS 9. |

# 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: | Condition 2: | Condition 3: |
|---|---|---|
| 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) | a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative | 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

# 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.<br>• Early application is permitted of either:<br>(i) IFRS 9 as a whole; or<br>(ii) only the 'change in own credit effects' OCI presentation for liabilities carried at FV.<br>• IFRS 9 option to continue with all or particular IAS 39 hedge accounting requirements.<br>• 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

# 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 <u>before</u> the date of initial application.



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