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Master Thesis

IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARD 9: FINANCIAL INSTRUMENTS IN GREEK BANKING INDUSTRY

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DEDICATION

This study is dedicated to the person who supported me the most during my studies with all her strengths, giving me courage and inspiration to achieve my goals, to my mother, Anastasia.

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ABSTRACT

This study investigates the new accounting standard- IFRS 9- that its adoption was mandatory since 1st January of 2018 for all entities, and its impact on the balance sheet. From the estimation of the four systemic Greek banks, we find that IFRS 9 has a significant effect on the loan loss provision and as a result on their capital adequacy, too. It should be stated, that for all banks the effect of IFRS 9 on retained earnings was significant, verifying the opinions that the new standard increased the credit loss allowance with the new impairment model.

Key Words: IFRS 9, Greek systemic banks, Impairment, Expected Credit Loss Model

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CHAPTER 1: INTRODUCTION

1.1 Introductory Remarks

The financial crisis of 2007–2008, also known as the global financial crisis, brought forward the weaknesses and risks that European banks were exposed. The regulatory organisations to guard the banking system issued guidelines, policies and adjustments to current regulatory frameworks to achieve the prudential framework, enhance supervision, resulting in more resilient banks. One of the significant risks and problems that all financial institutions were facing is the increased volume of non-performing loans (NPLs).

1.2 Scope and Research Questions of the Thesis

As a reaction to that, the International Accounting Standards Board issued in November 2009 the International Financial Reporting Standard 9 Financial Instruments. The standard was completed by July 2014, and the effective date was 1st of January 2018. The requirements of the standard were demanding, and the interested parties expressed the opinion that the implementation is going to cost a significant amount of both money and time. Although, the most common opinion among the interested parties is about the extent of loss allowance through the impairment model.
The focus of this study is to determine the impact that the implementation of IFRS 9 had in the Greek banking sector. We examine the effect in the accounts of the balance sheet at the first implementation at 1.1.2018 in order to understand if the expectations for the standard were right or not.

1.3 Structure of the Thesis

The structure of the study is as follows. In the first chapter is discussed several opinions expressed over the implementation of the standard in banking institutions.

The second chapter includes the description of IFRS 9 with the analysis of the changes it has occurred in other IFRS and the strengths, weaknesses, opportunities and threats (SWOT) analysis of the standard. In the third chapter, we study the changes from the first implementation in the accounts of the balance sheet from the four Greek systemic banks. Finally, in the last chapter, the conclusions of this study are presented.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

In this chapter will be provided a general description of the newly implemented IFRS 9, as and all the sources, articles and books that led to the idea to search the impact of the mentioned IFRS.

2.2 General Description of IFRS 9

The International Accounting Standards Board (IASB) developed IFRS 9 “Financial Instruments” to replace the existed IAS 39 “Financial Instruments: Recognition and Measurement”. The Standard was completed and published by July 2014 in its final form, which incorporates the requirements of all three phases of the financial instruments mentioned as a) Classification and Measurement b) Impairment and c) Hedge Accounting[1].

There was a widely common opinion through the users of financial statements and other interested parties that the 39th IAS’s requirements were difficult to understand, apply and interpret. This urged the IASB to develop a new standard, that would be less complex and principle-based. The IASB tried to fix the problem by issuing amendments to clarify requirements, give guidance and eliminate inconsistencies. By 2005, IASB and the Financial Accounting Standards Board (FASB) by the USA started working together to improve and simplify the reporting of financial statements. Although, the financial crisis and the G20 meeting’s conclusions, with the addition of recommendations from international bodies, made the need for a new Standard more urgent than ever. As a result, the 9th IFRS was published in 2014 with effective date for annual reporting periods beginning on or after the 1st of January,2018.

[1] BDO, 2016

Recognition and derecognition's requirements were carried forward unchanged from IAS 39 to IFRS 9. Key differences between the two standards are about the classification and measurement of financial assets and liabilities, the impairment model and the hedge accounting requirements. More details will be provided in next chapters.

2.3 IFRS 9 and Financial Statements

IFRS 9, according to Jackson (2018) article, could be the long-awaited answer to the EU's NPL problem. The European Central Bank (ECB) provided guidance for banks in October 2017 expecting them to cover their portion of NPLs in an agreed timetable. In that article is expressed also the point of view of Andrew Orr, Deloitte's financial advisory partner, who said that their study in Greece and Italy showed "a significant increase in performing loans, are being sold as a result of bad banks being wound up" and that the new standard could give them the courage to sell parts of their performing loans portfolios. It is also referred that IFRS 9 brings the concept of simple, transparent and standardized securitizations that are supposed to raise certainty and decrease risk. The primary takeaway of Jackson's article for IFRS 9 was that it could help to accelerate progress and reduce high evaluations.

Sanderson (2019) in his article mention that IFRS 9 could worsen leveraged default rates, according to S&P statistics. The author expresses the opinion that banks' new way of provisioning for losses means "a bigger Profit and Loss (P&L) hit earlier to banks as credit conditions worsen and making it costlier for banks to hold on poorly performing assets". As a result, it is expected that the IFRS 9 will have pushed larger banks to hedge their books with the use of synthetic securitizations or other techniques. Although this step would demand a credit portfolio management team, to be accomplished, and this team must be entirely separated from the team that handle borrower relationships.

Tominac S. and Vašiček V. in their article try to discover what are the major difficulties when it comes to acquire informations, operate the impairment model, find the criteria for the allocation and the macroeconomic factors when applying the new IFRS 9 in banks. They come to the conclusion that the Croatian banks did not see significant changes. It comes as result from that the reclassifications was small at its

extent and the banks included gains, that was previous excluded and the regulatory capital remained in the same levels.

In their article Gomma, Kanagaretnam, Mestelman and Shehata explain how they tried through laboratory environment to show the potential efficacy of the replacement of the Incurred Credit Loss (ICL) Model of International Accounting Standard (IAS 39) by the Expected Credit Loss (ECL) Model of IFRS 9 in order to account for credit impairment losses. Their primary finding was that the combined effects of eliminating the minimum "probable" threshold condition together with allowing managers to incorporate progressive information increase both the amount and adequacy of periodic reserve decisions. Also, they find out that the potential positive effects of ECL Model are not offset as the replacement of the ICL model with ECL model promotes higher reserves and the resulting increased earnings management through compensation schemes is less than predicted.

Kadar, C. (2017) in his paper operated an analysis between impairment requirement of the IAS 39 and IFRS 9 standards. He focused on the two major elements of impairment recognition, specifically time and amount. Under the hypothesis whether the IFRS 9 will recognise the impairment loss earlier and that the IFRS 9 will recognise higher impairment amount compared to the IAS 39, he came to the conclusion that IFRS 9 account loan loss provision earlier and with greater extent than IAS 39. Furthermore, he shows that the timeliness of the provision is shattered if there is an unforeseen tremor or uncertainty in the economic surrounding.

Sultanoğlu, B.(2018) in a study tries to estimate the expected qualitative and quantitative results of this transition in the European Banking Industry and compare them with the ones in Turkish Banking Industry. He comes to the conclusion that, ECL model use by European banks would have as a result an average 13percent-18percent rise in loss provisions and total capital ratio reduction by on average 35-50 basis points (bps). For Turkish banks, the total extent of provisions will be falling by 4.1percent and will have 21 bps positive impacts on total capital adequacy ratio on average.

Seitz, B., Dinh, T., Rathgeber, tried to simulate timeseries with ECL model and evaluate how these perform related to loan loss reserves under ICL model. Their results suggest that while simulated ECL reserves exceed IAS 39 reserves during times of crises. Reproduced reserves are unstable to changes in the market environment and vary significantly for more troubled banks. They expresse the

opinion that ECL model shows a high sensitivity to approximate the probability of default.

Nadia, C. and Rosa, V. (2014) created concepts of Liquidity and of Liquidity Risk, in accordance with IFRS 9 insides and in the next step their analysis was enriched by investigating IFRS 7 contents. They come to the conclusion that, IASB should consider about the prospect to "pay more attention to the Business Model pattern and to behavioural liquidity characteristics associated to financial instruments".

In a study (Sarah SY, 2017) about Luxemburgish banks, it is showed that the implementation of IFRS 9 impairment requirements is rising the credit loss allowances, and this raise varies by entity's portfolio. Also, it is demonstrated that the new standard's loan loss allowances increase timely with the rise of the probabilities of default when the credit standing deteriorates. Finally, it is proved that the impact predicted by the European Banking Authority (EBA) was higher than the assessment figured out.

Popescu and Ionescu in their article state that financial institutions found IFRS 9 difficult to understand, costly to implement and involving a high degree of professional judgement, especially when it comes to the classification of financial assets. They discussed the benchmarking test required by the new standard using different rates models. They conclude that whether the instrument should continue to be measured at amortized cost or in fair value will depend on the thresholds defined by the credit institution, considering that changes can have different meaning for different entities.

In a study (Starikov, 2018) about modeling expected credit losses in Russian banks, it is stated that implementation of IFRS 9 is very challenging for financial institutions as most of the Russian banks do not collect the amount of credit information required by the standard and which must be disclosed in order to reconciliate the ending of IAS 39 impairment allowances with those of IFRS 9. There is expressed the opinion that the implementation process will require a significant amount of time before a bank will be ready to comply with the requirements.

Beerbaum, D. and Ahmad, S. (2015) in their work studied the literature about meanings and impressions when a important rise in credit risk is accomplished. They summarized different impairment models and focused on the significant detreortaion criteria, which is a key element of the new IFRS 9 impairment model. They expressed

the opinion that the ECL model is not entirely new for the accounting literature. They came to the conclusion that the new model will have a significant impact on the financial institutions, as well as, on earnings management, too.

An analysis of the initial impact of IFRS 9, carried out by Deloitte (2019),on the six largest of the UK banks, specifically Barclays, HSBC, RBS, LBG, SCB and San UK, presents that IFRS 9 has increased the banks' provisioning levels but not drastically impacted financial results and regulatory capital resources. It is expressed that the banks' faced increases in impairment provisions of between 16.1percent – 58.4percent at transition on 1 January 2018, that led straight to a decrease of accounting retained earnings.

Martin (2019) in his article states that for eleven major banks (ABN-AMRO, Barclays, BNP-Paribas, DBS, Deutsche, HSBC, Lloyds, Maybank, Standard, RBS, Unicredit) the new ECL model led to the increase of loss loan provisions, which was the biggest effect of IFRS 9. Furthermore, it is expressed that the banks emphasised to the complexities of the ECL model, and none of them restated the financial statements of 2017, in order to find comparative information.

Ntaikou, D., Vousinas, G., Kenourgios, D. (2018) through their paper focus on the expected impact of IFRS 9 on the financial condition of the European banking system and especially on the Greek banking sector. They state that the change in ECL impairment model will have significant impact on the whole European banking system as in the Greek banks, too. For the last mentioned, their study points out that IFRS 9 implementation is likely to increase the coverage of non-perfoming exposures (NPEs) which is considered as a positive impact, while supplementary provisions will have an adverse regulatory capital outcome.

Having all the above in mind, in this thesis, it will be analysed the implementation of IFRS 9 in the Greek Banking Institutions from the perspective of the difficulties they faced until the impact in their annual financial statements.

CHAPTER 3: INSTITUTIONAL FRAMEWORK

3.1 Introduction

In this chapter will be provided a description of IFRS 9. Especially, we will give a full record of IFRS 9 requirements with the terms of IAS 32 that is used, and we will point out the changes IFRS 9 have brought in IAS 39 and IFRS 7. In order to accomplish all the above, will be needed to have in mind the definitions in Appendix A.

3.2 International Financial Reporting Standard 9

3.2.1 Objective

IFRS 9's objective is to establish principles for the financial reporting of financial assets and financial liabilities that will offer appropriate and beneficial information to users of financial statements for their valuation of the amounts, timing and uncertainty of an entity's future cash flows.[2]

3.2.2 Scope

All entities shall apply IFRS 9 to all types of financial instruments except:[3]

(a) those interests in subsidiaries, associates and joint ventures that are accounted for following, IAS 27 Separate Financial Statements, IAS 28 Investments in Associates and Joint Ventures or IFRS 10 Consolidated Financial Statements. Nevertheless, in some cases, IAS 27, IAS 28 or IFRS 10 necessitate or consent an entity to recognize an interest in a subsidiary, associate or joint venture in line with some or all of the requirements of IFRS 9. Entities shall also apply IFRS 9 to derivatives on an interest in a subsidiary, associate or joint venture except the

[2] IFRS 9, 2017, par. 1.1
[3] IFRS 9, 2017, par. 2.1

derivative undergoes the description of an equity instrument of the entity in IAS 32 Financial Instruments: Presentation.

(b) rights and obligations under leases to which IFRS 16 Leases concerns. Though:

(i) finance lease receivables (i.e. net investments in finance leases) and operating lease receivables recognized by a lessor must follow the derecognition and impairment requirements of IFRS 9;

(ii) lease liabilities recognized by a lessee are subject to the derecognition requirements of IFRS 9; and

(iii) derivatives that are embedded in leases are subject to the embedded derivatives requirements of IFRS 9.

(c) employers' rights and obligations under employee benefit plans, to which IAS 19 Employee Benefits applies.

(d) financial instruments issued by the entity that meet the definition of an equity instrument in IAS 32 (including options and warrants) or that are required to be classified as an equity instrument under the requirements in IAS 32. However, the owner of such equity instruments shall apply IFRS 9 to those instruments, unless they meet the first exception.

(e) rights and obligations resulting from a contract within the scope of IFRS 17 Insurance Contracts, other than an issuer's rights and obligations arising under an insurance contract that meets the description of a financial guarantee contract.

However, IFRS 9 applies to:

(i) a derivative that is embedded in a contract within the scope of IFRS 17, if the derivative is not itself a contract within the scope of IFRS 17; and

(ii) an investment module that is split from a contract within the scope of IFRS 17, if IFRS 17 involves such separation.

Additionally, if an issuer of financial guarantee contracts has previously asserted clearly, that it regards such contracts as insurance contracts and has used accounting that applies to insurance contracts, the issuer may designate to apply either IFRS 9 or IFRS 17 to such financial guarantee contracts. The issuer may make that election contract by contract, but the election for each contract is irrevocable.

(f) 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 forthcoming purchase date. The term of the forward contract should not surpass a sensible period normally necessary to obtain any required approvals and to finalize the transaction.

(g) loan commitments other than those loan commitments that will be described in next paragraph. However, an issuer of loan commitments shall utilize the impairment requirements of IFRS 9 to loan commitments that are not otherwise within the scope of IFRS 9. Also, all loan commitments are subject to the derecognition requirements of IFRS 9.

(h) financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 Share-based Payment applies, except for contracts that will be described below.

(i) rights to payments to refund the entity for expenditure that it is required to make to mend an obligation that it identifies as a provision in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, or for which, in an earlier period, it recognized a provision under IAS 37.

(j) 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 under IFRS 9.

IFRS 9 requests are additionally applied to the next financial instruments within the described conditions:

(i) The impairment requirements shall be applied to those rights that IFRS 15 identifies are accounted for according to IFRS 9 to recognize impairment gains or losses.

(ii) loan commitments that the entity defines as financial liabilities at fair value through profit or loss. An entity that has a previous routine of selling the assets resulting from its loan commitments soon after origination shall apply IFRS 9 to all its loan commitments in the same category.

(iii) loan commitments that can be settled net in cash or by giving or releasing another financial instrument. These loan commitments are derivatives. A loan commitment is not considered as settled net merely because the loan is paid out in instalments (for example, a mortgage construction loan that is paid out in instalments consistent with the progress of construction).

(iv) obligations to deliver a loan at a below-market interest rate.

(v) contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by switching financial instruments, as if the contracts were financial instruments, except for contracts that were arranged and remain to be held for the receipt or delivery of a non-financial item consistent with the entity's projected acquisition, trade or usage requirements. A contract, as the above described, might be irreversibly allocated as measured at fair value through profit or loss even if it was recognized for the purpose of the receipt or delivery of a non-financial item following the entity's expected purchase, sale or usage requirements. This designation is available only at the inception of the contract and only if it eradicates or drastically reduces a recognition irregularity (sometimes mentioned to as an 'accounting mismatch') that would otherwise originate from not recognizing that contract because it is excepted from IFRS 9.

3.2.3 Recognition

An entity shall recognize a financial instrument in its statement only if, the entity takes a part of the contractual provisions of the instrument[4]. At initial recognition of a financial asset, entity shall classify it as afterwards measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss and for a financial liability, it shall classify it as subsequently measured at amortized cost, except for some instruments that are going to be described next[5]. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting or settlement date accounting[6].

For first recognition purposes, a financial asset or a financial liability should be measured at its fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Though, if the fair value of the financial instrument at initial recognition varies from the transaction price, the entity shall account for that instrument at that date as follows[7]:

(a) at the mentioned measurement if that fair value is evidenced by a cited price in an active market for an identical asset or liability or based on a

[4] IFRS 9, 2017, par. 3.1
[5] IFRS 9, 2017, par. 4.1
[6] IFRS 9, 2017, par. 3.1
[7] IFRS 9, 2017, par. B5.1.2A

valuation technique that uses only data from detectable markets. An entity shall account the difference between the fair value at initial recognition and the transaction price as a gain or loss.

(b) in all other cases, at the mentioned measurement modified to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall account that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market members would consider when pricing the instrument.

When an entity applies settlement date accounting for an asset that is subsequently measured at amortized cost, the asset is identified at first at its fair value on the exchange date[8]. At initial recognition of trade receivables, an entity shall measure them at their transaction price, if the trade receivables do not contain a significant financing component following IFRS 15 (or when the entity applies the expedient practical following IFRS 15)[9].

3.2.4 Derecognition

Before estimating if, and to what extent, derecognition is applicable, an entity determines whether derecognition should be applied to a financial asset (or a group of similar financial assets) in its entirety, as follows:[10]

(a) Derecognition is applied to a part of a financial only if, the share considered for derecognition meets one of the following three conditions:

(i) The part contains only specially identified cash flows from a financial asset (or a group of similar financial assets). For instance, when an entity becomes part of an interest rate strip whereby the counterparty acquires the right to the interest cash flows, but not the principal cash flows from a debt instrument, derecognition is applied to the interest cash flows.

(ii) The part comprises only a wholly proportionate (pro-rata) portion of the cash flows from a financial asset (or a group of similar financial assets). For example, when an entity joins an agreement whereby the counterparty

[8] IFRS 9, 2017, par. 5.1
[9] IFRS 9, 2017, par. 5.1
[10] IFRS 9, 2017, par. 3.2

attains the rights to a ninty percent share of all cash flows of a debt instrument, derecognition is applied to ninty percent of those cash flows. For more than one counterparty, each counterparty is not required to have a proportionate share of the cash flows given that the transferring entity has a fully proportionate share.

(iii) The part contains only a fully proportionate (pro-rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets). For instance, when an entity joins an arrangement whereby the counterparty obtains the entitlements to a ninty percent share of interest cash flows from a financial asset, derecognition is applied to ninty percent of those interest cash flows. In case there is more than one counterparty, each counterparty is not necessary to have a proportionate share of the specially identified cash flows given that the transferring entity has a fully proportionate share.

(b) In all other cases, derecognition is applied to the whole financial asset (or to the group of similar financial assets in their entirety). For instance, when an entity transfers (i) the rights to the first or the last ninty percent of cash collections from a financial asset (or a group of financial assets), or (ii) the rights to ninty percent of the cash flows from a group of receivables, but provides a guarantee to reimburse the purchaser for any credit losses up to 8 percent of the main amount of the receivables.

An entity shall derecognize a financial asset only if[11]:

(a) the contractual rights to the cash flows from the financial asset expire, or

(b) it passes on the financial asset, and the transfer meets the criteria for derecognition.

An entity transfers a financial asset only if, it either[12]:

(a) handing over the rights as defined in the contract to collect the cash flows of the financial asset, or

(b) preserves the contractual rights to receive the cash flows of the financial asset but accepts a contractual commitment to pay the cash flows to one or more receivers in an agreement that meets the following three conditions[13]:

[11] IFRS 9, 2017, par. 3.2
[12] IFRS 9, 2017, par. 3.2
[13] IFRS 9, 2017, par. 3.2

(a) The entity has no obligation to give amounts to the subsequent beneficiaries unless it gathers equivalent amounts from the original asset. Short-term loans by the entity with the right of full reclamation of the amount borrowed plus accrued interest at market rates do not violate this condition.

(b) The entity is forbidden by the terms of the transfer contract from trading or pledging the original instrument other than as security to the final receivers for the agreement to pay them cash flows.

(c) The entity has an obligation to pay any cash flows it collects on behalf of the eventual recipients without significant wait. Furthermore, the entity is not entitled to reinvest such cash flows, with the exception of investments in cash or cash equivalents (as defined in IAS 7 Statement of Cash Flows) during the brief settlement period from the gathering date to the date of obligatory payment to the subsequent beneficiaries, and interest received from such deals is delivered to the subsequent receivers.

When an entity allocates a financial asset, it shall assess the extent to which it retains the risks and rewards of possession of the financial asset. In this occasion[14]:

(a) if the entity transfers all the risks and rewards of possession of the financial asset substantially, the entity shall derecognize the financial asset and account on their own as assets or liabilities any rights and obligations generated or preserved in the transfer.

(b) if the entity preserves all the risks and rewards of possession of the financial asset substantially, the entity shall continue to account the financial asset.

(c) if the entity neither handovers nor preserves substantially all the risks and rewards of possession of the financial asset, the entity shall define whether it has retained control of the financial asset. In this occasion:

(i) if the entity has not maintained control, it shall derecognize the asset and recognize separately as assets or liabilities any rights and obligations generated or preserved in the handover.

(ii) if the entity has preserved control, it shall continue to recognize the financial asset to the amount of its ongoing interest in the financial asset.

[14] IFRS 9, 2017, par. 3.2

The allocation of risks and rewards is estimated by comparing the entity's exposure, before and after the transfer, with the irregularity in the amounts and timing of the net cash flows of the relocated asset. An entity has maintained all the risks and rewards of possession of a financial asset considerably if its exposure to the irregularity in the present value of the future net cash flows from the financial asset does not change meaningfully as a result of the transfer (for instance because the entity has traded a financial asset bound by a contract to buy it back at a secure price or the sale price plus a lender's profit). An entity has shifted considerably all the risks and rewards of possession of a financial asset if its acquaintance to such variability is no longer important in relation to the total irregularity in the present value of the future net cash flows related with the financial asset (for example because the entity has traded a financial asset subject only to an option to repurchase it at its fair value at that time or has shifted a wholly proportionate part of the cash flows from a larger financial asset in an agreement, such as a loan sub-participation, that meets the above three conditions).

Frequently it will be noticeable if the entity has shifted or held considerably all risks and rewards of possession, and there will not be needed to execute any calculations. In other situations, it will be essential to calculate and contrast the entity's exposure to the irregularity in the present value of the future net cash flows before and after the transfer. The calculation and contrast are produced applying as the discount rate a suitable present market interest rate. All quite probable irregularity in net cash flows is studied, with more emphasis being given to those consequences that are more expected to take place.

If the entity has held control of the transferred asset is contingent on the transferee's power to trade the asset. If the transferee has the pragmatic ability to sell the asset in its fullness to an unconnected third party and is able to implement that ability individually and with no requiring to enforce supplementary controls on the transfer, the entity has not preserved control. In all other situations, the entity has preserved command.

In consolidated financial statements, all the above are applied at a consolidated level. Consequently, an entity primarily consolidates all subsidiaries in accordance with IFRS 10 and after, applies the mentioned to the resulting group. The next flow chart demonstrates the estimation of whether and to what extent a financial asset is derecognized:

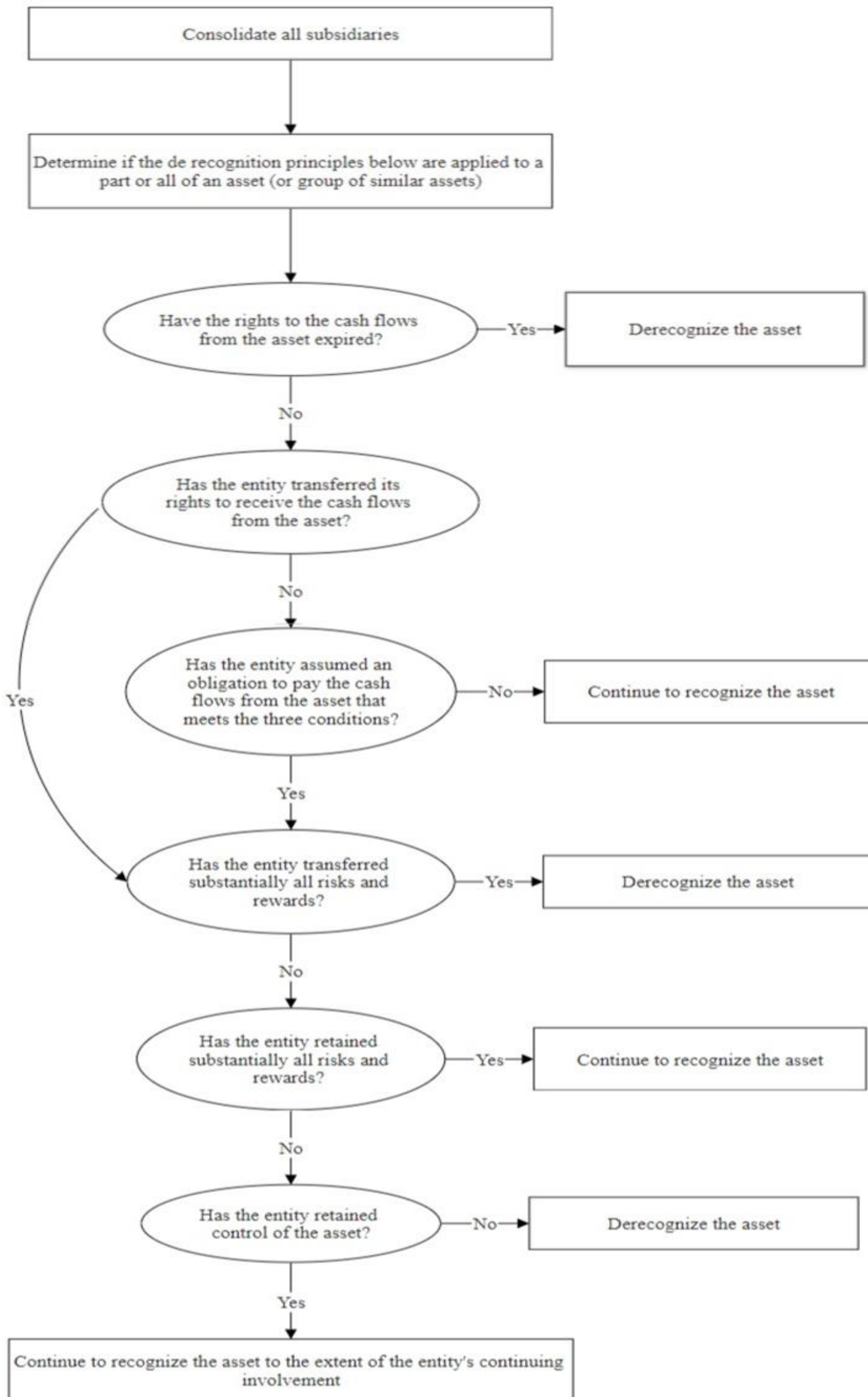

Figure 1: Recognition and Derecognition

Source: IFRS 9, 2017

If an entity shifts a financial asset in a transfer that follows the requirements for derecognition in its entirety and holds the right to service the financial asset for a fee, it shall account either a servicing asset or a servicing liability for that servicing contract. If the fee to be accepted is not expected to reimburse the entity sufficiently for executing the servicing, a servicing liability for the servicing obligation shall be accounted at its fair value. If the fee to be received is likely to be more than satisfactory return for the servicing, a servicing asset shall be accounted for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset, among the part that remains to be recognized and the part that is derecognized, on the basis of the relative fair values of those parts on the date of the transfer. For this purpose, a reserved servicing asset shall be handled as a part that remains to be recognized. The difference between[15]

(a) the carrying amount (measured at the date of derecognition) allocated to the part derecognized and

(b) the consideration received for the part derecognized

shall be recognized in profit or loss.

When an entity assigns the described carrying amount of a larger financial asset among the part that continues to be documented and the part that is derecognized, the fair value of the part that remains to be recognized needs to be measured. When the entity has a past of retailing parts similar to the part that remains to be recognized or other market transactions are for such parts, current prices of genuine transactions offer the best evaluation of its fair value. When there are no price quotes or current market transactions to verify the fair value of the part that continues to be recognized, the finest evaluation of the fair value is the difference among the fair value of the larger financial asset in its entirety and the consideration collected from the transferee for the part that is derecognized.

If, as an outcome of a transfer, a financial asset is derecognized in total but the transfer outcomes in the entity attaining a new financial asset or accepting a new financial liability, or a servicing liability, the entity shall account it at fair value. On derecognition of a financial asset in total, the difference between:[16]

(a) the carrying amount (measured at the date of derecognition) and

[15] IFRS 9, 2017, par. 3.2
[16] IFRS 9, 2017, par. 3.2

(b) the consideration received (including any new asset obtained less any new liability assumed)

shall be recognized in profit or loss.

If a transfer does not lead to derecognition for the reason that the entity has reserved all the risks and rewards of owning the transferred asset considerably, the entity shall continue to account the transferred asset in its entirety and shall recognize a financial liability for the consideration collected. In following periods, the entity shall recognize any revenue on the transferred asset and any expenditure incurred on the financial liability.

If an entity neither handovers nor keeps considerably all the risks and rewards of possession of a transferred asset and holds command of the transferred asset, the entity carries on recognizing the transferred asset to the degree of its ongoing involvement. The extent of the entity's continuing participation in the transferred asset is the amount to which it is uncovered to changes in the price of the transferred asset. For instance: [17]

(a) When the entity's ongoing participation takes the form of guaranteeing the transferred asset, the extent of the entity's ongoing participation is the lower of:

(i) the amount of the asset and

(ii) the supreme amount of the consideration collected that the entity could be obligatory to refund ('the guarantee amount').

(b) When the entity's remaining connection takes the form of a written or purchased option (or both) on the transferred asset, the amount of the entity's remaining participation is the amount of the transferred asset that the entity may buy back. Although, in the case of a written put option on an asset that is measured at fair value, the degree of the entity's remaining participation is restricted among the lower of the fair value of the transferred asset and the option exercise price.

(c) When the entity's remaining participation becomes a cash-settled option or similar provision on the transferred asset, the amount of the entity's remaining participation is measured in the identical method as that which causes from non-cash settled options as described in (b) above.

[17] IFRS 9, 2017, par. 3.2

When an entity keeps on recognizing an asset to the degree of its ongoing participation, the entity likewise recognizes a related liability. Despite the other measurement requirements in IFRS 9, the transferred asset and the related liability are measured on a basis that imitates the rights and obligations that the entity has reserved. The related liability is measured in such a way that the net carrying amount of the transferred asset and the related liability is:[18]

(a) the amortized cost of the rights and commitments taken by the entity, if the transferred asset is measured at amortized cost, or

(b) equal to the fair value of the rights and commitments reserved by the entity when measured on a stand-alone basis, if the transferred asset is measured at fair value.

The entity shall go on to recognize any income occurring from the transferred asset to the degree of its remaining participation and shall recognize any expenditure encountered on the related liability. If an entity's ongoing participation is in just a part of a financial asset (for instance when an entity holds an option to repurchase part of a transferred asset or holds a remaining interest that does not result in the maintenance of considerably all the risks and rewards of possession and the entity keeps command), the entity assigns the previous carrying amount of the financial asset among the part it keeps on recognizing under ongoing participation, and that part no longer recognizes on the basis of the comparative fair values of those parts on the date of the transfer. The difference between:

(a) the carrying amount (at the date of derecognition) due to the part that is no more recognized and

(b) the consideration taken for the part no more recognized

shall be recognized in profit or loss.

If the transferred asset is measured at amortized cost, the option in IFRS 9 to appoint a financial liability as at fair value through profit or loss is not valid to the related liability.

If a transferred asset remains recognised, the asset and the related liability shall not be offset. Likewise, the entity shall not offset any revenue occurring from the transferred asset with any cost encountered on the related liability. If a transferor delivers non-cash guarantee (such as debt or equity instruments) to the transferee, the

[18] IFRS 9, 2017, par. 3.2

accounting for the guarantee by the transferor and the transferee varies whether the transferee has the right to trade or repledge the guarantee and on whether the transferor has defaulted. The transferor and transferee shall recognise the guarantee as:

(a) If the transferee has the right by agreement or custom to trade or repledge the guarantee, then the transferor shall reclassify that asset in its balance sheet (for instance as a loaned asset, pledged equity instruments or repurchase receivable) distinctly from other assets.

(b) If the transferee trades guarantee pledged to it, it shall recognise the profits from the trade and a liability measured at fair value for its debt to pay back the guarantee.

(c) If the transferor fails to pay under the terms of the contract and is no more authorized to exchange the guarantee, it shall derecognise the guarantee, and the transferee shall recognise the guarantee as its asset originally measured at fair value or, if it has already traded the guarantee, derecognize its commitment to return the guarantee.

(d) Not Including what provided in (c), the transferor shall persist in having the guarantee as its asset, and the transferee shall not identify the guarantee as an asset.

An entity shall delete a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is quenched-specifically, when the commitment stated in the agreement is discharged or cancelled or expires[19]. A swap between a present borrower and lender of debt instruments with considerably dissimilar terms shall be recognized as an extinguishment of the initial financial liability and the recognition of a new financial liability. Likewise, a considerable adjustment of the terms of a current financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the initial financial liability and the recognition of a new financial liability. The difference among the carrying amount of a financial liability (or part of a financial liability) quenched or shifted to another party and the consideration given, including any non-cash assets shifted or liabilities accepted, shall be recognized in profit or loss.

[19] IFRS 9, 2017, par. 3.3

If an entity buys back a share of a financial liability, the entity shall assign the prior carrying amount of the financial liability among the part that remains recognized and the part that is derecognized based on the qualified fair values of those parts on the date of the repurchase. The difference between[20]:

(a) the carrying amount assigned to the part derecognized and

(b) the consideration given, involving any non-cash assets shifted or liabilities accepted, for the part derecognized

shall be recognized in profit or loss.

Some entities run, either internally or externally, an investment fund that offers depositors with gains established by units in the fund and recognize financial liabilities for the amounts to be given to those depositors. Likewise, some entities issue insurance contracts with straight participation traits and those entities keep the underlying items. Some such funds or underlying items include the entity's financial liability (for instance, a corporate bond issued). In spite of the other conditions for the derecognition of financial liabilities, an entity may designate not to derecognize its financial liability that is contained in such a fund or is an underlying item when, and only when, the entity buys back its financial liability for such purposes. As an alternative, the entity may designate to carry on accounting for that instrument as a financial liability and to account for the redeemed instrument as if the instrument were a financial asset and assess it at fair value through profit or loss. That appointment is irreversible and made on an instrument by instrument basis. For this appointment, insurance contracts involve investment contracts with discretionary involvement characteristics.

3.2.5 Classification

An entity shall classify financial assets as consequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both[21]:

(a) the entity's business model for handling the financial assets and

(b) the cash flow as defined in the contract features of the financial asset.

[20] IFRS 9, 2017, par. 3.3

[21] IFRS 9, 2017, par. 4.1

A financial asset shall be measured at amortized cost if both of the next circumstances are contacted[22]:

(a) the financial asset is kept within a business model whose aim is to seize financial assets in order to gather contractual cash flows and

(b) the terms as defined in the contract of the financial asset give rise on particular dates to cash flows that are exclusively fees 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 next circumstances are contacted[23]:

(a) the financial asset is kept within a business model whose objective is accomplished by both gathering contractual cash flows and trading financial assets and

(b) the terms as defined in the contract of the financial asset give rise on particular dates to cash flows that are exclusively fees of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income. Though, an entity might assemble an irreversible designation at primary recognition for certain investments in equity instruments that might otherwise be measured at fair value through profit or loss to depict consequent adjustments in fair value in other comprehensive income.

An entity may, at primary recognition, irreversibly appoint a financial asset as measured at fair value through profit or loss and by acting according to that, eliminates or drastically decreases a measurement or recognition irregularity (sometimes mentioned to as an ‘accounting mismatch’) that would otherwise result from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

All the above are depicted in the next flowchart (KPMG,2015):

[22] IFRS 9, 2017, par. 4.1
[23] IFRS 9, 2017, par. 4.1

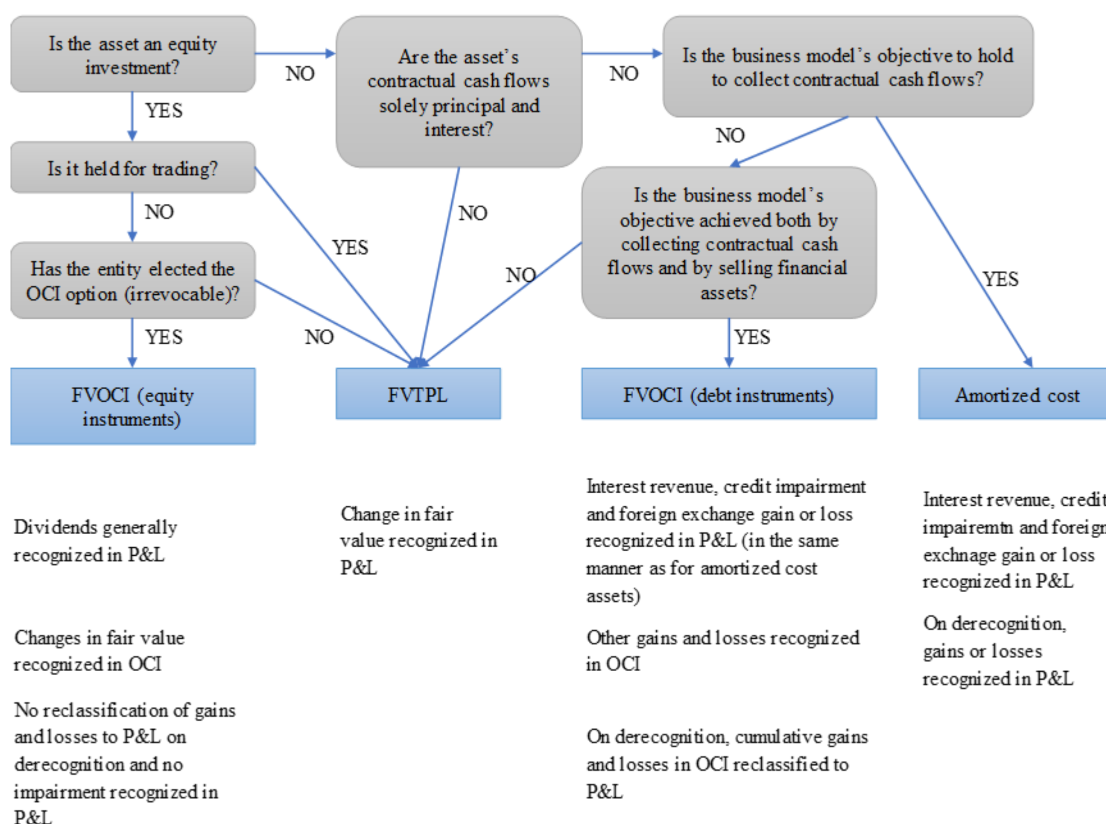

Figure 2: Classification and Measurement

Source: KPMG,2014

An entity shall subsequently classify all financial liabilities as measured at amortized cost, with the exception of[24]:

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

(b) financial liabilities that occur when a shift of a financial asset does not qualify for derecognition or when the ongoing participation approach is applicable.

(c) financial guarantee contracts. After original recognition, an issuer of such a contract shall afterwards measure it at the higher of:

(i) the amount of the loss allowance defined under the impairment conditions of IFRS 9 (they are going to be described in the next chapter) and

[24] IFRS 9, 2017, par. 4.2

(ii) the amount primarily recognized less, when suitable, the cumulative amount of income recognized following IFRS 15.

(d) commitments to offer a loan at a below-market interest rate. An issuer of such a commitment shall subsequently measure it at the higher of:

(i) the amount of the loss allowance defined under the impairment conditions of IFRS 9 (they are going to be described in the next chapter) and

(ii) the amount primarily recognized less, when suitable, the cumulative amount of income recognized following IFRS 15.

(e) contingent consideration recognized by an acquirer in a business combination under IFRS 3. Such contingent consideration shall afterwards be measured at fair value with changes recognized in profit or loss.

An entity may, at primary recognition, irreversibly elect a financial liability as measured at fair value through profit or loss when a contract contains one or more embedded derivatives and the host is not an asset under IFRS 9, or when acting so outcomes in more relevant information, because either:

(a) it eliminates or drastically decreases a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases or

(b) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is estimated on a fair value basis, according to a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in IAS 24), for instance, the entity's board of directors and chief executive officer.

An embedded derivative is an element of a hybrid contract that as well contains a non-derivative host with the consequence that some of the cash flows of the combined instrument differ in a way comparable to a stand-alone derivative. An embedded derivative triggers some or all of the cash flows that otherwise would be expected by the contract to be altered according to a particular 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 exact to a party of the contract. A derivative that is

connected to a financial instrument but is contractually exchangeable as an individual of that instrument, or has a different counterparty, is not an embedded derivative, but a distinct financial instrument.

If a hybrid contract holds a host that is an asset within the scope of IFRS 9, an entity shall apply the above-mentioned requirements in paragraph 3.2.4.1 to the entire hybrid contract. If a hybrid contract includes a host that is not an asset within the scope of IFRS 9, an embedded derivative shall be separated from the host and accounted for as a derivative under IFRS 9 only if[25]:

(a) the economic traits and risks of the embedded derivative are not strongly associated to the economic traits and risks of the host;

(b) a discrete instrument with identical conditions as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid contract is not appraised at fair value with changes in fair value accounted in profit or loss (specifically a derivative that is embedded in a financial liability at fair value through profit or loss is not divided).

If an embedded derivative is divided, the host contract shall be accounted for under the appropriate Standards. IFRS 9 does not report whether an embedded derivative shall be displayed individually in the balance sheet. Despite the above, if a contract includes one or more embedded derivatives and the host is not an asset under IFRS 9, an entity may assign the entire hybrid contract as at fair value through profit or loss unless[26]:

(a) the embedded derivative(s) do(es) not substantially alter the cash flows that otherwise would be expected by the contract; or

(b) it is clear with slight or no assessment when a comparable hybrid instrument is first thought that separation of the embedded derivative(s) is forbidden, such as a prepayment option embedded in a loan that allows the holder to prepay the loan for almost its amortized cost.

If an entity is demanded by IFRS 9 to split an embedded derivative from its host but can not measure the embedded derivative distinctly either at acquisition or at the end of a subsequent financial reporting period, it shall elect the entire hybrid contract as at fair value through profit or loss.

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[25] IFRS 9, 2017, par. 4.3

[26] IFRS 9, 2017, par. 4.3

If an entity cannot measure the fair value of an embedded derivative reliably on the basis of its provisions and restrictions, the fair value of the embedded derivative is the difference among the fair value of the hybrid contract and the fair value of the host. If the entity cannot measure the fair value of the embedded derivative using this method, the hybrid contract is assigned as at fair value through profit or loss.

3.2.6 Reclassification

When, and only when, an entity shifts its business model for managing financial assets, it shall reclassify all involved financial assets. In contrast, an entity shall not reclassify any financial liability[27].

3.2.7 Subsequent Measurement

After initial recognition, an entity shall measure a financial asset at[28]:

(a) amortised cost;

(b) fair value through other comprehensive income; or

(c) fair value through profit or loss.

An entity shall operate the impairment requirements to financial assets that are measured at amortised cost and to financial assets that are measured at fair value through other comprehensive income. An entity shall operate the hedge accounting requirements that will be described in next chapter (and, if relevant, IAS 39 for the fair value hedge accounting for a portfolio hedge of interest rate risk) to a financial asset that is elected as a hedged item.

After primary recognition, an entity shall measure a financial liability at amortized cost or for the mentioned exceptions. An entity shall apply of the hedge accounting requirements that will be described in next chapter (and, if relevant, IAS 39 for the fair value hedge accounting for a portfolio hedge of interest rate risk) to a financial liability that is elected as a hedged item[29].

[27] IFRS 9, 2017, par. 4.4
[28] IFRS 9, 2017, par. 5.2
[29] IFRS 9, 2017, par. 5.3

3.2.8 Amortised Cost Measurement

Interest revenue shall be estimated by using the effective interest method. This shall be computed by using the effective interest rate to the gross carrying amount of a financial asset except for[30]:

(a) acquired or initiated credit-impaired financial assets. For such financial assets, the entity shall use the credit-adjusted effective interest rate to the amortised cost of the financial asset from primary recognition.

(b) financial assets that are not acquired or initiated credit-impaired financial assets but afterwards have been converted into credit-impaired financial assets. For such financial assets, the entity shall use the effective interest rate to the amortised cost of the financial asset in following reporting periods.

An entity that, in a reporting period, computes interest revenue by using the effective interest method to the amortised cost of a financial asset, shall, in following reporting periods, compute the interest revenue by using the effective interest rate to the gross carrying amount if the credit risk on the financial instrument betters so that the financial asset is no more credit-impaired and the development can be associated accurately to a happening striking after the requirements were operated (such as an improvement in the borrower's credit rating).

When the cash flows as defined in the contract of a financial asset are renegotiated or otherwise altered, and the renegotiation or adjustment does not result in the derecognition of that financial asset, an entity shall compute again the gross carrying amount of the financial asset and shall recognise an adjustment gain or loss in profit or loss. The gross carrying amount of the financial asset shall be computed again as the present value of the renegotiated or altered contractual cash flows that are reduced at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for acquired or initiated credit-impaired financial assets) or, when appropriate, the reviewed efficient interest rate. Any expenses or payments sustained modify the carrying amount of the altered financial asset and are amortised over the remaining term of the modified financial asset.

[30] IFRS 9, 2017, par. 5.4

An entity shall at once decrease the gross carrying amount of a financial asset when the entity has not enough prospects of regaining a financial asset in total or a part of it. A write-off equals a derecognition occasion.

3.2.9 Impairment

An entity shall acknowledge a loss allowance for expected credit losses on a financial asset that is measured at amortised cost or at 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 conditions are valid[31]. For financial assets that are measured at fair value through other comprehensive income, an entity shall operate the impairment requests for the recognition and measurement of a loss allowance. Though, the loss allowance shall be documented in other comprehensive income and shall not lower the carrying amount of the financial asset in the balance sheet.

At each reporting date, an entity shall determine the loss allowance for a financial instrument at an amount equivalent to the lifetime expected credit losses if the credit risk on that financial instrument has risen considerably since primary recognition. If the credit risk on a financial instrument at the reporting date, has not risen considerably since primary recognition, an entity shall calculate the loss allowance for that financial instrument at an amount equivalent to 12-month expected credit losses.

The purpose of the impairment requests is to identify lifetime expected credit losses for all financial instruments for which there have been considerable rises in credit risk since primary recognition - whether considered on a distinct or combined basis -bearing in mind all sensible and acceptable information, including that which is progressive.

For loan commitments and financial guarantee contracts, the date that the entity grows into a contributor to the irreversible obligation shall be counted to be the date of primary recognition in order to apply the impairment requirements.

If an entity has evaluated the loss allowance for a financial instrument at a quantity equivalent to lifetime expected credit losses in the prior reporting period, but

[31] IFRS 9, 2017, par. 5.5

concludes that at the current reporting date the credit risk on a financial instrument has not risen considerably since primary recognition, the entity shall compute the loss allowance at an quantity equivalent to 12-month expected credit losses at the present reporting date. An entity shall recognise in profit or loss, as an impairment gain or loss, the extent of expected credit losses (or reversal) that is necessary to accommodate the loss allowance at the reporting date to the quantity that is required to be recognised under IFRS 9.

At every single reporting date, an entity shall evaluate if the credit risk on a financial instrument has risen considerably since primary recognition. For the evaluation, an entity shall make use of the alteration in the risk of a default taking place over the expected life of the financial instrument in place of the modification in the number of expected credit losses. In order to complete the evaluation, an entity shall contrast the risk of a default happening on the financial instrument as at the reporting date with the risk of a default happening on the financial instrument as at the date of primary recognition and contemplate sensible and acceptable information, that is obtainable lacking unnecessary charge or struggle, that is revealing of noteworthy growths in credit risk since primary recognition.

An entity may undertake that the credit risk on a financial instrument has not risen considerably since primary recognition if the financial instrument is ascertained to carry out low credit risk at the reporting date. If sensible and acceptable progressive information is accessible with no further expenses and seek, an entity cannot depend exclusively on historical information while ascertaining if credit risk has risen considerably since primary recognition. Nevertheless, when information that is more progressive than previous status (either on an individualistic or a united basis) is unavailable with no further expenses and seek, an entity might make use of prior knowledge to ascertain whether there have been considerable rises in credit risk since primary recognition. Apart from the way in which an entity evaluates considerable rises in credit risk, there is a rebuttable belief that the credit risk on a financial asset has risen considerably since primary recognition when payments, as identified in the contract, are more than 30 days late. An entity can rebut this belief if the entity has rational and acceptable evidence that is obtainable with no further expenses and seek, that lays bare that the credit risk has not risen considerably since primary recognition even though the payments as stated in the contract are more than 30 days late. When an entity verifies that there have been considerable rises in credit risk before

contractual payments are more than 30 days late, the rebuttable belief is not applicable.

If the cash flows as defined in the contract on a financial asset have been renegotiated or altered and the financial asset was not derecognised, an entity shall evaluate whether there has been a major rise in the credit risk of the financial instrument by paralleling[32]:

(a) the risk of a default arising at the reporting date (based on the altered terms of the contract); and

(b) the risk of a default taking place at initial recognition (based on the initial, unchanged terms as specified in the contract).

At the reporting date, an entity shall just acknowledge the cumulative changes in lifetime expected credit losses since primary recognition as a loss allowance for acquired or initiated credit-impaired financial assets. At every single reporting date, an entity shall acknowledge in profit or loss the extent of the change in lifetime expected credit losses as an impairment gain or loss. An entity shall acknowledge beneficial changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the number of expected credit losses that were incorporated in the expected cash flows on primary recognition.

An entity shall at all times calculate the loss allowance at a quantity equivalent to lifetime expected credit losses for[33]:

(a) trade receivables or contract assets that are caused by transactions that are concluded in the scope of IFRS 15, and that:

(i) do not contain a major financing factor under IFRS 15 (or when the entity uses the applied expedient following IFRS 15); or

(ii) contain a major financing part under IFRS 15, if the entity selects as its accounting strategy to evaluate the loss allowance at an extent equivalent to lifetime expected credit losses. That accounting strategy shall be operated to all such trade receivables or contract assets but may be operated distinctly to trade receivables and contract assets.

(b) lease receivables that rise from transactions under IFRS 16, if the entity decides as its accounting strategy to calculate the loss allowance at an

[32] IFRS 9, 2017, par. 5.5
[33] IFRS 9, 2017, par. 5.5

extent equivalent to lifetime expected credit losses. That accounting strategy shall be operated to all lease receivables but may be operated distinctly to finance and operating lease receivables.

An entity might choose its accounting strategy for trade receivables, lease receivables and contract assets separately of each other.

An entity shall calculate expected credit losses of a financial instrument in a way that mirrors[34]:

(a) an unprejudiced and probability-weighted amount that is established by estimating a variety of probable results;

(b) the time value of money; and

(c) sensible and acceptable data that is obtainable with no further expenses and seek at the reporting date concerning previous happenings, present circumstances and predictions of upcoming economic situations.

When calculating expected credit losses, an entity is not obligated inevitably to detect all probable developments. But it shall take into consideration the risk or possibility that a credit loss arises by contemplating the probability that a credit loss takes place and the probability that no credit loss arises, even when the probability of a credit loss taking place is too short. The greatest extent to take into account when evaluating expected credit losses is the greatest contractual period (containing expansion alternatives) during which entity is vulnerable to credit risk and not a longer period, even if that longer period is coherent with trading practices.

In spite of this, several financial instruments contain mutually a loan and an unused commitment factor and the entity's contractual power to request a refund and withdraw the unused commitment does not restrict the entity's exposure to credit losses to the contractual notice period. For this kind of financial instruments and just those financial instruments, the entity shall evaluate expected credit losses over the period that the entity is uncovered to credit risk and expected credit losses would not be lessened by credit risk administration procedures, even if that period spreads further than the greatest contractual period.

3.2.10 Reclassification of Financial Assets

[34] IFRS 9, 2017, par. 5.5

If an entity reclassifies financial assets, it shall operate the reclassification prospectively from the reclassification date. The entity shall not restate any formerly recognized gains, losses (as well as impairment gains or losses) or interest[35].

If an entity reclassifies a financial asset from the amortized cost classification to the fair value through profit or loss classification, its fair value is calculated at the reclassification date. Profit and loss occurring from a difference between the prior amortized cost of the financial asset and fair value is recognized in profit or loss. If an entity reclassifies a financial asset from the fair value through profit or loss classification to the amortized cost classification, its fair value at the reclassification date turns into its new gross carrying amount.

If an entity reclassifies a financial asset from the amortized cost classification to the fair value through other comprehensive income classification, its fair value is calculated at the reclassification date. Profit or loss resulting from a difference among the prior amortized cost of the financial asset and fair value is accounted in other comprehensive income. The effective interest rate and the extent of expected credit losses are not modified as a result of the reclassification.If an entity reclassifies a financial asset from the fair value through other comprehensive income classification to the amortized cost classification, the financial asset is reclassified at its fair value at the reclassification date. In spite of this, the cumulative gain or loss formerly recognized in other comprehensive income is deleted from equity and modified alongside to the fair value of the financial asset at the reclassification date. Consequently, the financial asset is evaluated at the reclassification date the same as if it had always been evaluated at amortized cost. This modification alters other comprehensive income but has no effect on profit or loss and as a result, is not a reclassification modification (see IAS 1 Presentation of Financial Statements). The effective interest rate and the extent of expected credit losses are not modified as a result of the reclassification.

If an entity reclassifies a financial asset from the fair value through profit or loss classification to the fair value through other comprehensive income classification, the financial asset shall continue to be evaluated at fair value If an entity reclassifies a financial asset from the fair value through other comprehensive income classification to the fair value through profit or loss classification, the financial asset keeps on being

[35] IFRS 9, 2017, par. 5.6

evaluated at fair value. The cumulative gain or loss formerly recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification modification (see IAS 1) at the reclassification date.

3.2.11 Gains and Losses

A gain or loss on a financial instrument that is calculated at fair value shall be recognized in profit or loss except in cases such as if[36]:

(a) it is part of a hedging relationship (directions for measuring gains and losses from hedging instruments will be described in the next chapter);

(b) it is an outlay in an equity instrument, and the entity has chosen to present depict gains and losses on that outlay in other comprehensive income following directions which will be mentioned next;

(c) it is a financial liability assessed as at fair value through profit or loss, and the entity is obligated to depict the impacts of changes in the liability's credit risk in other comprehensive income following directions which will be mentioned next;

(d) it is a financial asset assessed as at fair value through other comprehensive income, and the entity is forced to acknowledge some changes in fair value in other comprehensive income following directions which will be mentioned next.

A gain or loss on a financial asset that is assessed as at amortized cost and is not an element of a hedging relationship shall be recognized in profit or loss when the financial asset is derecognized, reclassified as mentioned above, through the amortization procedure or with the intention to credit impairment gains or losses. A gain or loss on a financial liability that is assessed as at amortized cost and is not part of a hedging relationship shall be accounted in profit or loss when the financial liability is derecognized and through the amortization process.

A gain or loss on financial instrument that are hedged items in a hedging relationship shall be recognized as[37]:

(a) For the fair value hedge, the hedge accounting should be as:

[36] IFRS 9, 2017, par. 5.7
[37] IFRS 9, 2017, par. 5.7

i. the gain or loss on the hedging instrument shall be acknowledged in profit or loss (or other comprehensive income, if the hedging instrument hedges an equity instrument for which an entity has chosen to depict changes in fair value in other comprehensive income

ii. the hedging gain or loss on the hedged item shall modify the carrying amount of the hedged item (if applicable) and be acoounted in profit or loss. If the hedged item is a financial asset (or a part thereof) that is assessed as at fair value through other comprehensive income, the hedging gain or loss shall be accounted in profit or loss. Nevertheless, if the hedged item is an equity instrument for which an entity has chosen to depict changes in fair value in other comprehensive income, those quantities shall stay recognized in other comprehensive income. When a hedged item is an unrecognized company pledge (or a part thereof), the collective change in the fair value of the hedged item consequent to its designation is identified as an asset or a liability with a consequent gain or loss accounted in profit or loss.

(b) For the cash flow hedge, hedge accounting should be as:

i. the share of the gain or loss on the hedging instrument that is decided to be an effective hedge (specifically the portion that is compensated by the adjustment in the cash flow hedge reserve calculated under (a)) shall be recognized in other comprehensive income.

ii. any residual gain or loss on the hedging instrument (or any gain or loss needed to balance the adjustment in the cash flow hedge reserve computed following (a)) is hedge ineffectiveness that shall be recognized in profit or loss.

(c) For hedges of a net investment in a foreign operation, the hedge accounting should be as:

i. The share of the gain or loss on the hedging instrument that is defined to be an effective hedge shall be accounted in other comprehensive income

ii. The cumulative gain or loss on the hedging instrument correlating with the effective share of the hedge that has been collected in the foreign currency translation reserve shall be reclassified from equity to profit or loss as a reclassification adjustment (see IAS 1) following IAS 21 The Effects of Changes in Foreign Exchange Rates on the disposal or partial disposal of the foreign operation.

If an entity accounts financial assets with the use of settlement date accounting, any modification in the asset's fair value to be obtained from the trade date until the settlement date is not credited for assets assessed as at amortised cost. For assets assessed as at fair value, though, the alter in fair value shall be accounted in profit or loss or in other comprehensive income. The trade date shall be regarded as the date of primary recognition for utilizing the impairment requirements.

At primary recognition, an entity may make an irreversible designation to appear in other comprehensive income following modifications in the fair value of an investment in an equity instrument under IFRS 9 that is neither held for trading nor contingent consideration documented by an acquirer in a business mixture to which IFRS 3 Business Combinations is applicable. If an entity makes the above designation, it shall recognise in profit or loss dividends from that investment when[38]:

(a) the entity's entitlement to obtain payment of the dividend is determined;

(b) it is possible that the economic advantages related to the dividend will come to the entity; and

(c) the extent of the dividend can be calculated unfailingly.

An entity shall depict a gain or loss on a financial liability that is allocated as at fair value through profit or loss as follows:

(a) The extent of alteration in the fair value of the financial liability attributed to modifications in the credit risk shall be shown in other comprehensive income, and

[38] IFRS 9, 2017, par. 5.7

(b) the residual extent of alteration in the fair value of the liability shall be shown in profit or loss

except in the case the handling of the consequences of alterations in the liability's credit risk described in (a) would generate or expand an accounting mismatch in profit or loss, then the entity shall depict all gains or losses on that liability (together with the consequences of alterations in the credit risk of that liability) in profit or loss. Despite the above conditions, an entity shall show in profit or loss all gains and losses on loan commitments and financial guarantee contracts that are assigned as at fair value through profit or loss.

In order to determine if an accounting mismatch is generated or increased, an entity must evaluate whether it waits that the impacts of alterations in the liability's credit risk will be counterbalanced in profit or loss by a shift in the fair value of another financial instrument measured at fair value through profit or loss. An expectation like this must be established on an economic connection between the traits of the liability and the traits of the other financial instrument. That decision is received at primary recognition and is not reconsidered. For practical purposes, the entity is not necessary to enter into all of the assets and liabilities, causing an accounting mismatch at exactly the same time. A logical wait is allowed given that any residual trades are likely to occur. An entity must operate regularly its approach for defining whether depicting in other comprehensive income the impacts of alterations in the liability's credit risk would generate or expand an accounting mismatch in profit or loss. In spite of this, an entity may make use of various methods when there are various economic connections between the traits of the liabilities assigned as at fair value through profit or loss and the traits of the other financial instruments. IFRS 7 Financial Instruments: Disclosures demands an entity to supply qualitative disclosures in the notes to the financial statements about its approach for getting to that decision.

A gain or loss on a financial asset assessed as at fair value through other comprehensive income shall be recognized in other comprehensive income, excluding impairment gains or losses and foreign exchange gains and losses, as long as the financial asset is derecognized or reclassified. When the financial asset is derecognized, the collective gain or loss formerly accounted in other comprehensive income is reclassified from equity to profit or loss as a reclassification correction. If the financial asset is reclassified out of the fair value through other comprehensive

income classification, the entity shall remove the cumulative gain or loss that was formerly recognized in other comprehensive income from equity and attuned alongside the fair value of the financial asset at the reclassification date. Interest computed by exercising the effective interest method is recognized in profit or loss. If a financial asset is assessed as at fair value through other comprehensive income, the extents that are accounted in profit or loss are equivalent to the extents that would otherwise have been recognized in profit or loss if the financial asset had been assessed as at amortized cost.

3.2.12 Hedge accounting

The objective of hedge accounting is to depict, in the financial statements, the outcome of an entity's risk administration actions that make use of financial instruments to handle exposures occurring from particular risks that could change profit or loss (or other comprehensive income for investments in equity instruments for which an entity has designated to depict alterations in fair value in other comprehensive income). This methodology is meant to transmit the situation of hedging instruments for which hedge accounting is employed to enable understanding of their objective and outcome. For a fair value hedge of the interest rate revelation of a collection of financial instruments (and only for such a hedge), an entity may use the hedge accounting requirements in IAS 39 as an alternative to those in IFRS 9. If that is the case, the entity must as well put into operation the particular obligations for the fair value hedge accounting for a portfolio hedge of interest rate risk and appoint as the hedged item a part that is a currency quantity[39].

A derivative assessed as at fair value through profit or loss may be assigned as a hedging instrument, except for some written options. A written option does not constitute a hedging instrument except in case it is assigned as a counterbalance to a purchased option, containing one that is inserted in another financial instrument[40].

A non-derivative financial instrument assessed as at fair value through profit or loss may be assigned as a hedging instrument except in case it is a financial liability assigned as at fair value through profit or loss for which the extent of its alter in fair value that is attributable to modifications in the credit risk of that liability is

[39] IFRS 9, 2017, par. 6.1
[40] IFRS 9, 2017, par. 6.2

depicted in other comprehensive income. For a hedge of foreign currency risk, the foreign currency risk element of a non-derivative financial instrument may be assigned as a hedging instrument given that it is not an outlay in an equity instrument for which an entity has chosen to present depict modifications in fair value in other comprehensive income. For hedge accounting objectives, just contracts with a party outside of the reporting entity (specifically exterior to the group or particular entity that is being reported on) can be assigned as hedging instruments.

A qualifying instrument must be assigned in its wholeness as a hedging instrument. The only exceptions permitted are[41]:

(a) dividing the inherent worth and time value of an option contract and assigning as the hedging instrument just the alteration in inherent value of an option and not the difference in its time value

(b) dividing the forward component and the spot aspect of a forward contract and assigning as the hedging instrument only the shift in the value of the spot component of a forward contract and not the forward component; likewise, the foreign currency basis spread may be divided and excepted from the assign of a financial instrument as the hedging instrument

(c) a percentage of the total hedging instrument, like 50 per cent of the nominal amount, may be allocated as the hedging instrument in a hedging relationship. Though, a hedging instrument may not be allocated for a portion of its adjustment in fair value that outcomes from only a part of the time period through which the hedging instrument stays outstanding.

An entity may face as a group, and jointly appoint as the hedging instrument, any combination of the following (containing those conditions in which the risk or risks occurring from some hedging instruments counterbalanced those occurring from others):

(a) derivatives or a quantity of them; and

(b) non-derivatives or a quantity of them.

Though, a derivative instrument that mixes a written option and a purchased option (for instance, an interest rate collar) does not follow the requirements to be assigned as a hedging instrument if it is, in result, a net written option at the date of allocation. Likewise, two or more instruments (or parts of them) may be in

[41] IFRS 9, 2017, par. 6.2

conjunction defined as the hedging instrument only in the case, in combination, they are not, in result, a net written option at the date of allocation.

Hedged items are considered to be recognized assets or liabilities, unrecognized firm commitments, forecast transactions or net outlays in a foreign deal. The hedged item is either a separate object or a collection of objects[42]. A hedged item might as well take place as a part of such an object or collection of objects. In addition, the hedged item should be unfailingly quantifiable. In case a hedged item is a forecast transaction (or a part thereof), that deal must be possible. An accumulated exposure that is a mixture of an exposure, that could be certified as a hedged item and a derivative, can be defined as a hedged item. This contains a forecast transaction of an accumulated exposure (specifically not validated but expected forthcoming transactions that would cause an exposure and a derivative) if that accumulated exposure is extremely possible and, as soon as it has arisen and is consequently no longer forecast, is entitled as a hedged item.

For hedge accounting objectives, just assets, liabilities, firm commitments or possible forecast transactions with a side outside the reporting entity may be assigned as hedged items. Hedge accounting can be used to transactions among entities in the same group only in the discrete or isolated financial statements of those entities and not in the consolidated financial statements of the group, apart from the consolidated financial statements of an investment entity, as defined in IFRS 10 Consolidated Financial Statements, where transactions among an investment entity and its subsidiaries evaluated at fair value through profit or loss will not be eradicated in the consolidated financial statements. In exception of the above, the foreign currency risk of an intragroup monetary item (such as for instance, a payable/receivable among two subsidiaries) can be classified as a hedged item in the consolidated financial statements if it leads to an exposure to foreign exchange rate gains or losses that are not completely eradicated from consolidation following IAS 21[43]. Pursuant to IAS 21, foreign exchange rate gains and losses on intragroup monetary items are not completely eradicated from consolidation when the intragroup monetary item is exchanged among two group entities that have different functional currencies. Additionally, the foreign currency risk of a possible forecast intragroup operation can be classified as a hedged item in consolidated financial statements on the condition

[42] IFRS 9, 2017, par. 6.3
[43] IFRS 9, 2017, par. 6.3

that the deal is executed in another currency than the functional currency of the entity inserting to that transaction and the foreign currency risk will modify consolidated profit or loss.

An entity may nominate an item entirely or an element of an item as the hedged item in a hedging relationship. An entire item includes all the adjustments in the cash flows or fair value of an item. A part includes fewer than the complete fair value modification or cash flow volatility of an item. If that is the case, an entity may define just the next types of components (including combinations) as hedged items[44]:

(a) just alterations in the cash flows or fair value of an item that could be attributed to a particular risk or risks (risk component), on the condition that, by assessing within the framework of the specific market structure, the risk factor is individually recognizable and unfailingly quantifiable. Risk factors involve a denomination of just alterations in cash flows or the fair value of a hedged item over or under certain value or another variable (a biased risk).

(b) one or more chosen contractual cash flows.

(c) components of a nominal amount, specifically a particular part of the amount of an item

A hedging relationship meets the requirements for hedge accounting only if all of the next conditions are satisfied[45]:

(a) the hedging relationship consists exclusively of qualified hedging instruments and qualified hedged items.

(b) at the establishment of the hedging relationship, there is an official appointment and credentials of the hedging relationship and the entity's risk administration aim and policy for carrying out the hedge. That credentials must contain the recognition of the hedging instrument, the hedged item, the nature of the risk being hedged and the way the entity will evaluate whether the hedging relationship is in compliance with the hedge effectiveness constraints (counting its study of the causes of hedge ineffectiveness and how it determines the hedge ratio).

(c) the hedging relationship satisfies all the following hedge effectiveness demands:

[44] IFRS 9, 2017, par. 6.1
[45] IFRS 9, 2017, par. 6.4

(i) there is an economic connection among the hedged item and the hedging instrument

(ii) the impact of credit risk does not take over the changes in value arising from that economic connection; and

(iii) the hedge ratio of the hedging relationship is equal to that arising from the amount of the hedged item that the entity in fact hedges and the amount of the hedging instrument that the entity, in fact, makes use of to hedge that amount of hedged item. Nevertheless, that appointment shall not reveal an unevenness between the weightings of the hedged item and the hedging instrument that would form hedge ineffectiveness (irrespective of whether recognized or not) that could cause an accounting result that would be contradictory to the objective of hedge accounting.

An entity uses hedge accounting to hedging relationships that satisfy the eligibility criteria as mentioned above (which include the entity's choice to assign the hedging relationship). There are three kinds of hedging relationships[46]:

(a) fair value hedge: a hedge of the revelation to alterations in fair value of a recognized instrument or an unrecognized firm commitment, or a part of any such item, which can be attributed to certain risk and could influence profit or loss.

(b) cash flow hedge: a hedge of the revelation to variations in cash flows which can be attributed to a certain risk in relation to all, or a part of, a recognized instrument (such as all or some future interest payments on variable-rate debt) or an extremely possible forecast transaction, and could influence profit or loss.

(c) the hedge of a net investment in a foreign operation as described in IAS 21.

In the case that the hedged item is an equity instrument for which an entity has chosen to depict alterations in fair value in other comprehensive income, the hedged exposure described in paragraph (a) above, should be one that could alter other comprehensive income. Only, if that is the case, the recognized hedge ineffectiveness

[46] IFRS 9, 2017, par. 6.5

is shown in other comprehensive income. A hedge of the exchange risk of a firm commitment may be recorded as a fair value hedge or a cash flow hedge.

If a hedging relationship no longer satisfies hedge effectiveness condition relating to the hedge ratio, but the risk management purpose for that assigned hedging relationship remains unchanged, an entity shall modify the hedge ratio of the hedging relationship so that it follows the qualifying criteria again. This is referred as 'rebalancing' and imply the modifications made to the designated quantities of the hedged item or the hedging instrument of a preexisting hedging relationship with the aim of preserving a hedge ratio that is coherent with the hedge effectiveness requirements. Modifications to assigned quantities of a hedged item or of a hedging instrument for another objective do not represent a rebalancing under IFRS 9.

An entity shall put an end to hedge accounting retroactively when the hedging relationship (or a part of a hedging relationship) no longer meets the qualifying criteria (after considering any rebalancing of the hedging relationship, if it is valid). This involves cases in which the hedging instrument expires or is traded, completed or trained. For this reason, substitution or rollover of a hedging instrument into another hedging instrument is not an expiration or execution whether such substitution or rollover is a component of, and in accordance with, the entity's documented risk administration aim. Furthermore, for this purpose, there is not an expiration or execution of the hedging instrument if[47]:

(a) as a result of legislation or introduction of legislation, the parties to the hedging instrument come in agreement that one or several clearing counterparties substitute for their original counterparty to convert into the new counterparty to each of the parties. In order to achieve that, a clearing counterparty is a central counterparty (sometimes referred to as the 'clearing organization' or 'clearing agency') or an entity or entities, for instance, a clearing associate of a clearing organization or a customer of a clearing associate of a clearing organization, that are behaving as a counterparty in order to accomplish clearing by a central counterparty. Though, when the parties to the hedging instrument switch their original counterparties with different counterparties, the obligation in this paragraph is satisfied only if

[47] IFRS 9, 2017, par. 6.5

each of those parties accomplishes clearing with the same central counterparty.

(b) other modifications, if any, to the hedging instrument are restricted to those that are required to modify such a substitution of the counterparty. Such adjustments are restricted to those that comply with the conditions that would be awaited if the hedging instrument were initially cleared with the clearing counterparty. These modifications incorporate adjustments in the collateral obligations, rights to counterbalance receivables and payables balances, and charges collected.

Discontinuing hedge accounting will be able to either change a hedging relationship completely or just a part of it (in that case hedge accounting goes on for the rest of the hedging relationship).

While any cash flow hedge is in compliance with the qualifying criteria, the hedging relationship shall be accounted for as follows[48]:

(a) the discrete part of equity related to the hedged item (cash flow hedge reserve) is modified at the lower of the following (in absolute amounts):

(i) the collective gain or loss on the hedging instrument from inception of the hedge; and

(ii) the collective adjustment in fair value (present value) of the hedged item from inception of the hedge.

(b) the extent that has been collected in the cash flow hedge reserve pursuant to paragraph (a) above recorded as follows:

(i) if a hedged forecast transaction consequently causes the classification of a non-financial instrument, or a hedged forecast transaction for a non-financial instrument turns into a firm commitment for which fair value hedge accounting is operated, the entity shall eradicate that quantity from the cash flow hedge reserve and incorporate it straight into the original cost or other carrying quantity of the asset or the liability. This is not a reclassification modification according to IAS 1 and therefore does not alter other comprehensive income.

[48] IFRS 9, 2017, par. 6.5

(ii) for cash flow hedges other than those included in the paragraph (i), that amount shall be reclassified from the cash flow hedge reserve to profit or loss as a reclassification correction in the same period or periods during which the hedged predictable future cash flows alter profit or loss (for instance, in the periods that interest revenue or expenditure is recognized or when a forecast trade happens).

(iii) but if that quantity is a loss and an entity expects that some or all of that loss will not be restored in one or several upcoming periods, it shall as soon as possible reclassify the extent that is not likely to be retrieved into profit or loss as a reclassification modification according to IAS 1.

The ineffective portion of a hedge of a net investment in a foreign operation shall be recognized in profit or loss.

A unit of items (as well as a unit of items that compose a net position) is an eligible hedged item only if[49]:

(a) it contains elements (as well as parts of items) that are, one by one, eligible hedged items;

(b) the elements in the unit are managed jointly on a group basis for risk administration objectives; and

(c) in the instance of a cash flow hedge of a unit of items whose inconsistencies in cash flows are not likely to be roughly related to the total inconsistency in cash flows of the unit so that counterbalancing risk positions take place:

(i) it is a hedge of foreign currency risk; and

(ii) the appointment of that net position indicates the reporting period in which the forecast transactions are likely to alter profit or loss and their nature and extent.

If an entity makes use of a credit derivative that is evaluated at fair value through profit or loss to handle the credit risk of the complete or a part of a financial instrument (credit exposure) it may assign that financial instrument to the degree that

[49] IFRS 9, 2017, par. 6.6

it is managed like that (specifically all or a part of it) as evaluated at fair value through profit or loss i[50]f:

(a) the title of the credit exposure (for instance, the borrower, or the holder of a loan commitment) coincides with the reference entity of the credit derivative ('name matching'); and

(b) the position of the financial instrument corresponds to that of the instruments that can be issued under the credit derivative.

An entity may make this appointment regardless of whether the financial instrument being administered for credit risk under the scope of IFRS 9 (for instance, an entity may allocate loan commitments that is not within the scope of IFRS 9). The entity may appoint that financial instrument at, or after, first recognition, or while it is unrecognized. The entity shall verify the appointment alongside.

3.3 IFRS 9 SWOT Analysis

According to Huian (2012), the SWOT (strengths, weaknesses, opportunities and threats) analysis of the recently implemented International Financial Reporting Standard 9 Financial Instruments is presenting the following features:

Strengths: IFRS 9 has the following benefits:

- Decreases the complication of the classification and measurement.
- Brings accounting and the management's strategies in the same path.
- Demands extensive disclosures of the reasons for adjustments in accounting decisions (for instance the business model)
- Averts falsification of accounting results.
- Deals with issues emerging from the financial crisis.
- Abridges guidelines that handle the measurement of hybrid contracts, including embedded derivatives.

Weaknesses: The soft spots of IFRS 9 is described as:

[50] IFRS 9, 2017, par. 6.7

- Sets new concepts (e.g. business model) that involve the use of professional judgement, consequently, brings in more subjectivity.
- Detains many options and various accounting handlings on several phases, so it is not reducing complication.
- Offers no symmetrical tactic for financial liabilities.
- Does not deal with subjects such as hedge accounting.

Opportunities: Opportunities of IFRS 9 is listed as:

- Permits the use of professional judgment while taking various accounting decisions.
- Offers the chance to reclassify, on first recognition, certain financial assets formerly measured at fair value to the amortized cost and vice-versa.
- Finishing second and third stage at a slower level may permit improved selections attained by the standard-setter.

Threats: IFRS 9 provides threats as:

- Decreases comparability by letting too much flexibility in decision making.
- Shows too much acceptance on several subjects (elimination of tainting rules) that may result in choosing certain options in order to follow accounting requirements and not to show the entity's financial position faithfully.
- Early adoption outcomes in mixed presentation and measurement (IFRS 9 and IAS 39) that weakens the utility of financial statements.
- The multiple stages approach may generate mismatches where new requirements are incompatible or dissimilar from existing guidelines of IAS 39 (e.g. hedge accounting).
- There are risks of later revisions due to decisions made in the other two stages of the project.
- The EU tactic of postponing implementation of the standard created uncertainty and concerns among users and preparers.

3.4 Changes in Other IFRS

IFRS 9 Financial Instruments issued in order to replace IAS 39 Financial Instruments. As a result, the last-mentioned has suffered the most modifications and IFRS 7 Financial Instruments: Disclosures had to be expanded with some more disclosures. All these changes and additions will be analyzed in next paragraphs.

3.4.1 IFRS 9 & IAS 39

In a first attempt to identify the changes between the two standards, there is adopted from Huian (2012) the next table that compares the standards for every key category:

Table 1: Comparison of Key Categories Between IAS 39 And IFRS 9

Comparison of Key Categories Between IAS 39 And IFRS 9		
Category	IAS 39	IFRS 9
The purpose of the standard	Applies to all financial assets, with a few exceptions.	The same
The initial recognition of assets	When an organization becomes a party to the contractual provisions.	The same
Initial measurement	The fair value, including transactions costs (for financial assets that are not intended for trading purposes).	The same
Subsequent measurement	The fair value. Amortized cost. Cost (for the share-based instruments, which do not have a reliable fair value measurement).	Fair value through profit or loss (FVTPL). Amortized cost (AC). Fair value through other comprehensive income (FVOCI).
Types of classification	Available for sale (AFS). Held to maturity (HTM). Loans and receivables. Fair value through profit or loss (FVTPL).	Fair value through profit or loss (FVTPL). Amortized cost (AC). Fair value through other comprehensive income (FVOCI).

Reclassification	Reclassification is prohibited through profit or loss after initial recognition.	Change of business model
Equity instruments	All equity instruments available for sale are measured at fair value in another comprehensive income.	Irrevocable choice to designate as fair value through other comprehensive income, fair value through profit and loss if held for trading.
Gains and losses	Usually, through profit or loss.	Usually, through profit or loss.
Impairment	Several models of impairment, model of incurred losses.	A unified model of impairment for all financial instruments – the expected loss model.

Source: Huian (2012)

Within the financial instruments under the scope of IAS 39, in the scope of IFRS 9 are added and instruments that an entity can allocate subject to own use exception at fair value through profit or loss (FVTPL). Furthermore, IFRS 9 impairment requirements are used in all loan commitments and contract assets under IFRS 15 Revenue from Contracts with Customers.

The classifications for financial assets under IAS 39 as held to maturity, loans and receivables, FVTPL, and available-for-sale, shape their measurement. In IFRS 9 these are included in categories that mirror the measurement, specifically amortized cost, fair value through other comprehensive income (FVOCI) and FVTPL. IFRS 9 grounds the classification of financial assets on the contractual cash flow features and entity's business model for administering the financial asset, whereas IAS 39 supports the classification on certain descriptions for each category. Generally, the IFRS 9 financial asset classification conditions are judged as more principle focused than under IAS 39.

Under IFRS 9, embedded derivatives are not divided if the host contract is an asset within the scope of the standard. Instead, the complete hybrid contract is considered for classification and measurement. This eliminates the complicated IAS 39 bifurcation valuation for financial asset host contracts. Also, derivative financial assets/liabilities that are related to, and resolved by, distribution of unquoted equity instruments, and whose fair value cannot be unfailingly verified are obliged to be

measured at cost. IFRS 9 deletes this cost exclusion for derivative financial assets/liabilities; consequently, all derivative liabilities will be calculated at FVTPL. IAS 39 permits specific equity investments in private firms for which the fair value is not unfailingly determinable to be evaluated at cost, although under IFRS 9, all equity investments are measured at fair value. For specific financial liabilities assigned at FVTPL under IFRS 9, adjustments in the fair value that connect to an entity's own credit risk are accounted in other comprehensive income (OCI) while the remaining adjustment in fair value is accounted in profit or loss. Allowances to this recognition principle involve when this action generates, or expands, an accounting mismatch and does not affect loan commitments or financial guarantee contracts assigned as FVTPL. In these cases, IFRS 9 demands the recognition of all adjustments in fair value in profit or loss. Following IFRS 9, reclassification is necessary only when an entity modifies its business model for administering financial assets and is forbidden for financial liabilities; therefore, reclassifications are likely to be very infrequent.

As for the impairment, IFRS 9 uses one impairment model to all financial instruments subject to impairment testing, while IAS 39 has various models for several financial instruments. Impairment losses are accounted on first recognition, and at each following reporting period, even if the loss has not yet been suffered. Apart from previous events and present circumstances, logical and justifiable forecasts concerning collectability are also considered when deciding the extent of impairment pursuant to IFRS 9. The key differences between the impairment requirements of the two standards are:

Table 2: Key Differences

IAS 39 Incurred Loss Model	IFRS 9 Expected Credit Loss Model
Delays the recognition of credit losses until there is objective evidence of impairment.	Expected credit losses (ECLs) are recognized at each reporting period, even if no actual loss events have taken place.
Only past events and current conditions are considered when determining the amount of impairment (i.e., the effects of future credit loss events cannot be considered, even when they are expected).	In addition to past events and current conditions, reasonable and supportable forward-looking information that is available without undue cost or effort is considered in determining impairment.

Different impairment models for different financial instruments subject to impairment testing, including equity investments classified as available-forsale.	The model will be applied to all financial instruments subject to impairment testing.

3.4.2 IFRS 9 & IFRS 7

The disclosures, which IFRS 9 inserted in IFRS 7, aims to permit users of the financial statements to have a bigger picture of the impact of credit risk on quantity, timing and improbability of future cash flows. IFRS 7 was altered in order to contain extensive qualitative as well as quantitative disclosure obligations. A Few essential disclosures are:

Table 3: Disclosures under IFRS 7

Qualitative disclosures	Quantitative disclosures
records, conjectures and methods used to:	cross-check of loss allowance accounts presenting critical factors for adjustment
- calculate approximately expected credit losses (and variations in methods or suppositions) - decide 'substantial spread in credit risk' and the reporting entity's characterisation of 'default' - ascertain 'credit-impaired' possessions	quantitative information about the collateral carried as security and other credit improvements for credit-impaired possessions.
write-off strategies	write-offs, repossessions and adjustments
strategies about the adjustment of contractual cash flows of financial assets	gross carrying amount per credit risk grade or delinquency
comprehensive depiction of collateral carried as security and other credit developments.	description of gross carrying amounts presenting critical factors for adjustment

3.5 Conclusion

To conclude, IFRS 9 replacing IAS 39 becomes a really challenging procedure for organizations, as there is a modification in the perspective from looking back to forward-looking. This difficulty arises from the complicated requirements, as mentioned above, giving in this standard its advantages and disadvantages as the SWOT analysis presented. The adjustments in other standards arising from IFRS 9 might are confusing although they are implemented in order to improve reliability of the presentation, comparability and understanding of the issued financial statements.

CHAPTER 4: CASE STUDY

4.1 Introduction

It was expected that the implementation of IFRS 9 would cause significant effects to the banks. Following this expectation, it will be examined its impact in the Greek banking system and specifically in the four systemic banks, as they are called. They are the ALPHA BANK, EUROBANK ERGASIAS, NATIONAL BANK OF GREECE and PIRAEUS BANK. The study will focus on the accounts, that was modified by the first implementation in 1.1.2018. It will be examined the extent of the change in those accounts.

4.2 Impact in Balance Sheet

Before this analysis begins, it should be noted that none of the four systematic banks restated the 2017 numbers of the balance sheet, as they followed the option IFRS 9 offered, not to restate the financial statements. The balances sheets of ALPHA BANK, EUROBANK ERGASIAS, NATIONAL BANK OF GREECE and PIRAEUS BANK are represented in the below table. It is represented the numbers at three different points of time and specifically at 31.12.2017, at the time of first implementation 1.1.2018 and at 31.12.2018.

Table 4: Balance Sheets

	ALPHA BANK			EUROBANK			NATIONAL BANK			PIRAEUS BANK		
€ million	**31.12.2018**	**1.1.2018**	**31.12.2017**	**31.12.2018**	**1.1.2018**	**31.12.2017**	**31.12.2018**	**1.1.2018**	**31.12.2017**	**31.12.2018**	**1.1.2018**	**31.12.2017**
Assets												
Cash and due from banks	1.928	1.594	1.594	1.924	1.524	1.524	5.138	1.778	1.778	2.572	1.449	1.449
Interest bearing deposits with banks	2.500	1.715	1.716	2.307	2.122	2.123	2.587	1.736	1.736	1.120	2.148	2.148
Trading portfolio assets	8	15	9	43	48	49	4.527	5.377	1.801	590	1.504	3.727
Derivative financial instruments	725	623	623	1.871	1.878	1.878	3.791	3.680	3.681	378	472	460
Loans and advances at amortised cost	40.228	41.894	43.318	36.232	36.080	37.108	30.134	30.972	37.941	39.841	43.001	44.720
Investment securities	7.005	5.878	5.885	7.772	7.551	7.605	4.440	3.848	3.780	2.483	2.295	90
Holdings in associated undertakings	23	19	19	113	156	156	0	0	0	162	251	251
Investment property	493	553	553	316	277	277	1.016	874	874	1.079	1.121	1.121
Tangible assets	735	734	734	353	390	390	1.046	1.086	1.086	1.010	1.041	1.041
Intangible assets	434	390	390	183	152	152	150	132	132	292	301	301
Deferred tax assets	5.291	4.722	4.331	4.916	4.860	4.859	4.909	4.922	4.916	6.647	6.543	6.543
Other assets	1.364	1.349	1.349	1.934	1.718	1.724	1.777	1.593	1.612	3.458	3.011	3.045
Current tax assets	0	0	0	0	0	0	359	421	421	221	219	219
Assets held for sale	272	288	289	20	2.184	2.184	5.221	5.010	5.010	2.028	2.302	2.302
Total assets	**61.007**	**59.775**	**60.808**	**57.984**	**58.940**	**60.029**	**65.095**	**61.429**	**64.768**	**61.881**	**65.658**	**67.417**
Liabilities												
Due to credit institutions and central banks	10.456	13.142	13.142	8.426	13.991	13.991	7.935	7.512	7.512	5.548	11.435	11.435
Derivative financial instruments	1.148	1.029	1.029	1.893	1.853	1.853	2.131	1.927	3.798	413	402	402
Deposits	38.732	34.890	34.890	39.083	33.843	33.843	43.027	40.265	40.265	44.739	42.715	42.715
Issued Bonds	943	656	656	2.707	549	549	1.146	1.026	1.026	528	435	435
Current tax liabilities	41	43	43	8	7	7	9	10	10	2	2	2
Deferred tax liabilities	19	25	25	4	4	4	14	0	6	32	34	34
Liabilities due to Post-employment benefits	87	92	92	49	50	50	239	254	254	192	194	194
Other liabilities	909	871	871	576	498	498	720	914	914	885	960	960
Provisions	527	543	433	207	125	125	144	152	81	168	53	53
Liabilities associated with assets held for sale	2	0	0	0	1.959	1.959	4.092	3.523	3.523	1.866	1.641	1.641
Total liabilities	**52.864**	**51.290**	**51.181**	**52.953**	**52.879**	**52.879**	**59.457**	**55.583**	**57.389**	**54.373**	**57.871**	**57.871**
Shareholders' equity												
Share capital	463	463	463	655	1.605	1.605	2.744	2.744	2.744	2.620	2.620	2.620
Share Premium Account	10.801	10.801	10.801	8.055	8.055	8.055	13.866	13.866	13.866	13.075	13.075	13.075
Reserves	460	846	809	7.797	8.014	8.005	261	365	323	155	24	11
Retained earnings	-3.625	-3.669	-2.490	-11.518	-11.659	-10.561	-11.909	-11.812	-10.237	-10.499	-10.099	-8.327
Minority interests	29	29	29	0	3	3	0	0	0	116	126	126
Balanced Funds	15	15	15	42	43	43	676	683	683	2.041	2.041	2.041
Total shareholders' equity	**8.143**	**8.484**	**9.627**	**5.031**	**6.061**	**7.150**	**5.638**	**5.846**	**7.379**	**7.508**	**7.787**	**9.546**
Total liabilities and equity	**61.007**	**59.775**	**60.808**	**57.984**	**58.940**	**60.029**	**65.095**	**61.429**	**64.768**	**61.881**	**65.658**	**67.417**

From the above table, it is noticed that the first implementation affected a significant number of accounts. These accounts that are going to be examined one by one are:

- Interest bearing deposits with banks
- Trading portfolio assets
- Derivative financial instruments-Assets
- Loans and advances at amortised cost
- Investment securities
- Deferred tax assets
- Other assets
- Assets held for sale
- Derivative financial instruments-Liabilities
- Deferred tax liabilities
- Provisions
- Reserves
- Retained earnings
- Minority interests
- Balanced Funds

The Interest-bearing deposits with banks account was slightly reduced from the implementation for the ALPHA BANK and EUROBANK due to the change in classification and measurement of the assets, and especially in the category of hold to collect.

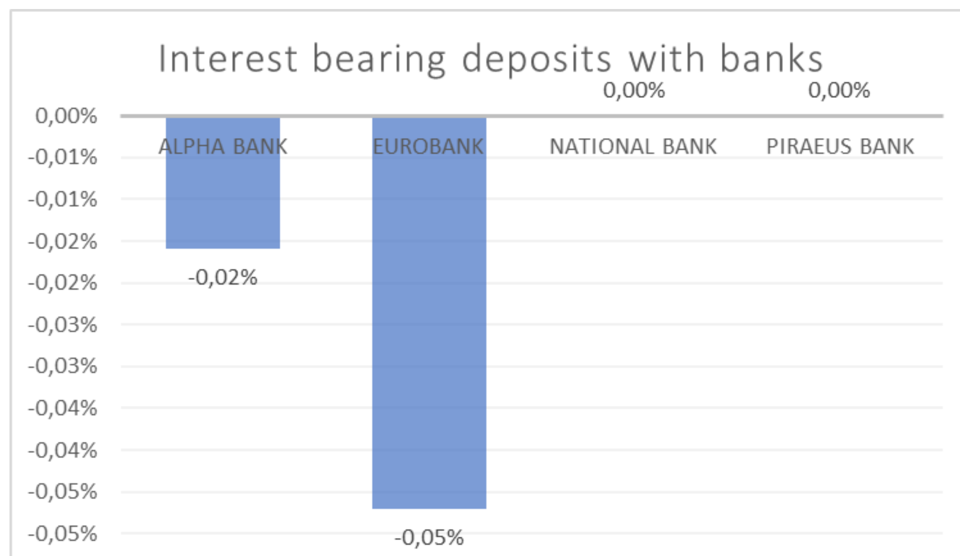

Figure 3:Interest-bearing deposits with banks

Trading portfolio assets was increased for ALPHA BANK and NATIONAL BANK due to the measurement as trading assets for some of the previous measured as available for sale assets. In contrast to this, for the PIRAEUS BANK trading assets were reduced as they were measured under the requirements from the new standards as investment securities as will be described next.

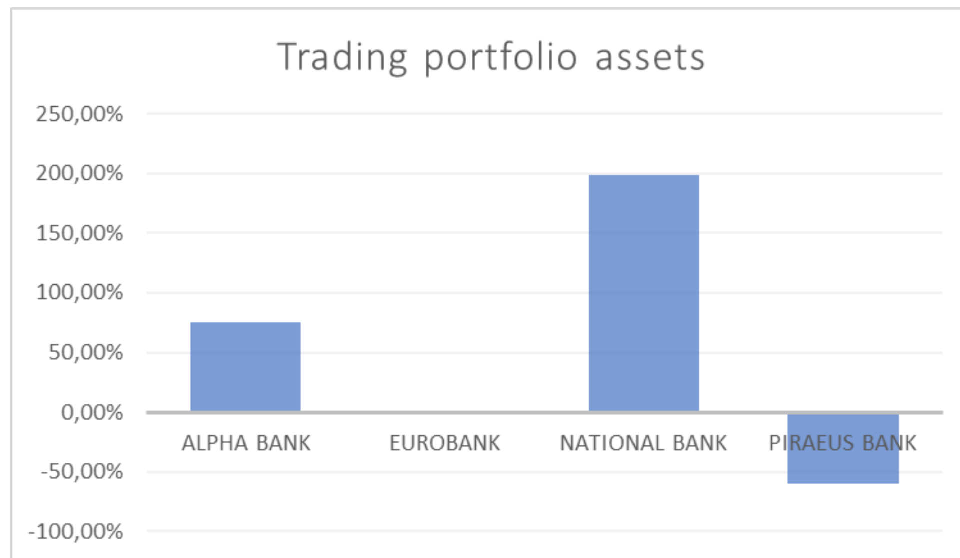

Figure 4:Trading portfolio assets

The Derivative financial instruments, recognised as assets, was decreased just for 0,03percent for NATIONAL BANK, as a part of them were recognised to fair value through profit and loss and for the PIRAEUS BANK, the increase was about 2,61percent as assets from available for sale were recognised as derivative financial assets.

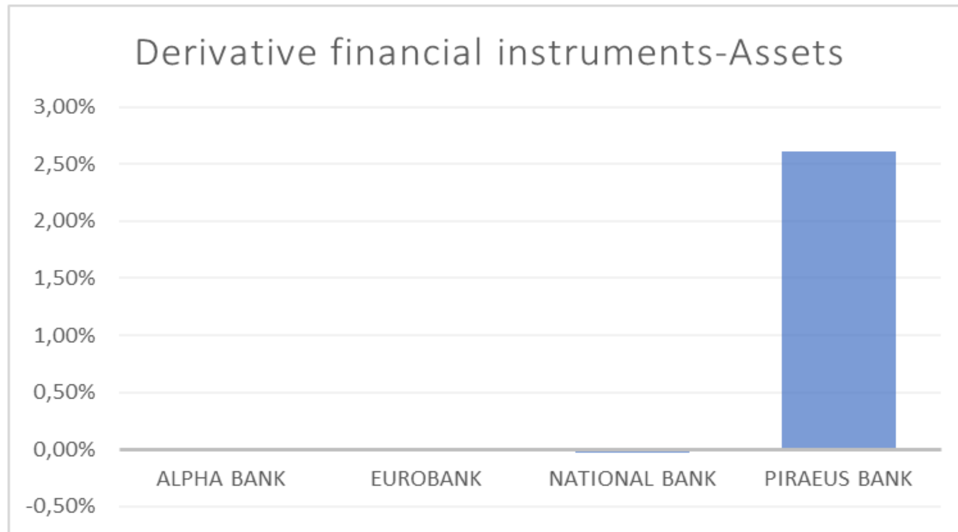

Figure 5: Derivative financial instruments

Loans and advances at amortised cost were reduced for all four systemic banks as a lot of their loans could not pass the Solely Payments of Principal and Interest test, and as a result, they were transferred to the fair value through profit and loss. This reduce was at about 3percent, but for NATIONAL BANK the decrease was about 18percent and specifically about €165 million.

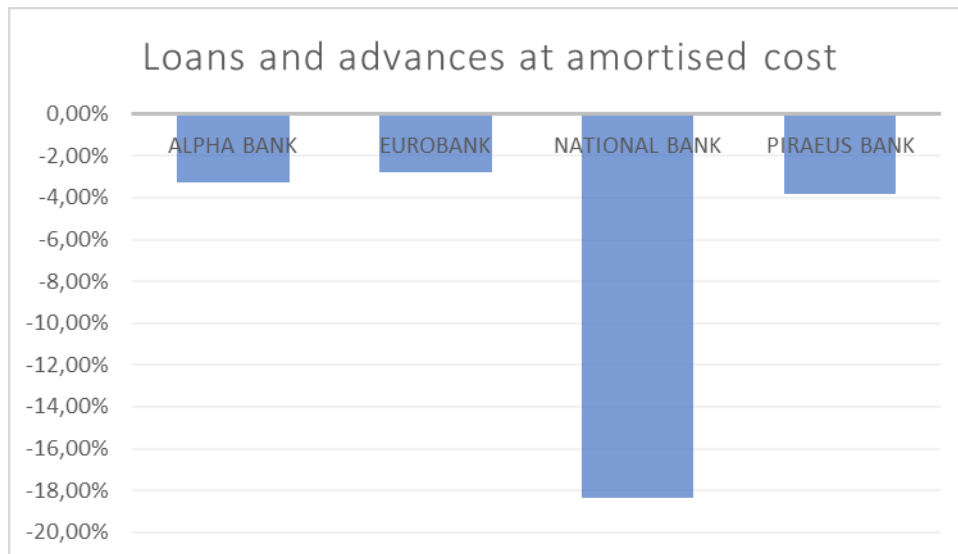

Figure 6: Loans and advances at amortised cost

Investment securities were decreased by about 1percent for ALPHA BANK and EUROBANK as some of their assets were recognised in amortized cost. As for NATIONAL

BANK, assets of this category were increased by about 2percent due to their recognition at fair value through other comprehensive income.

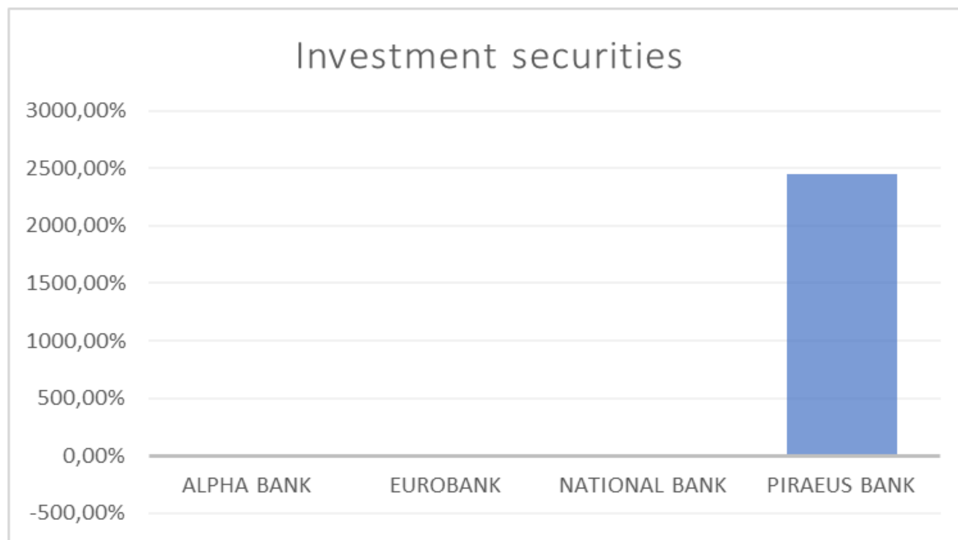

Figure 7: Investment securities

Deferred tax assets were enlarged, especially for ALPHA BANK, due to measurements at fair value through profit and loss that modified the taxable results.

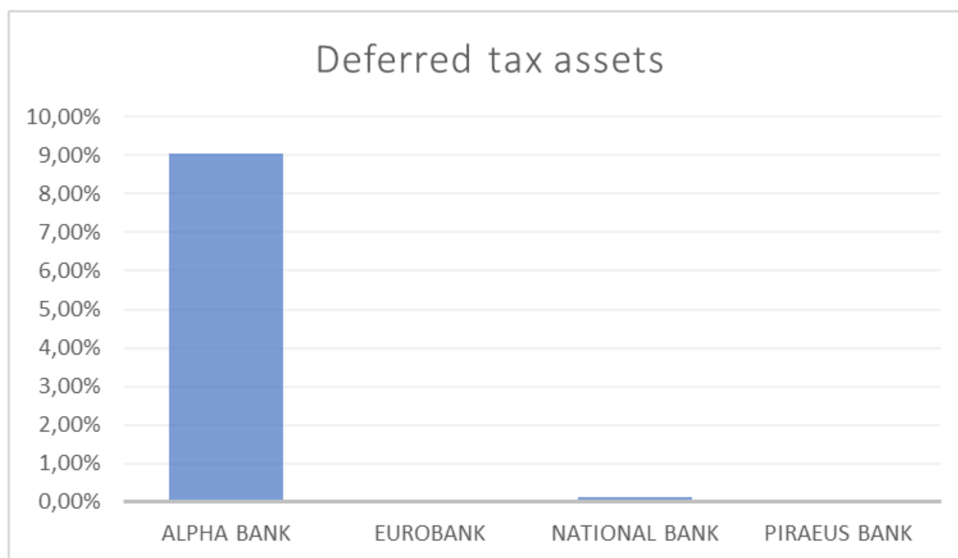

Figure 8: Deferred tax assets

Other assets were reduced for about 1percent for three of the four systemic banks as some of the assets were measured at amortised cost following the requirements of IFRS 9.

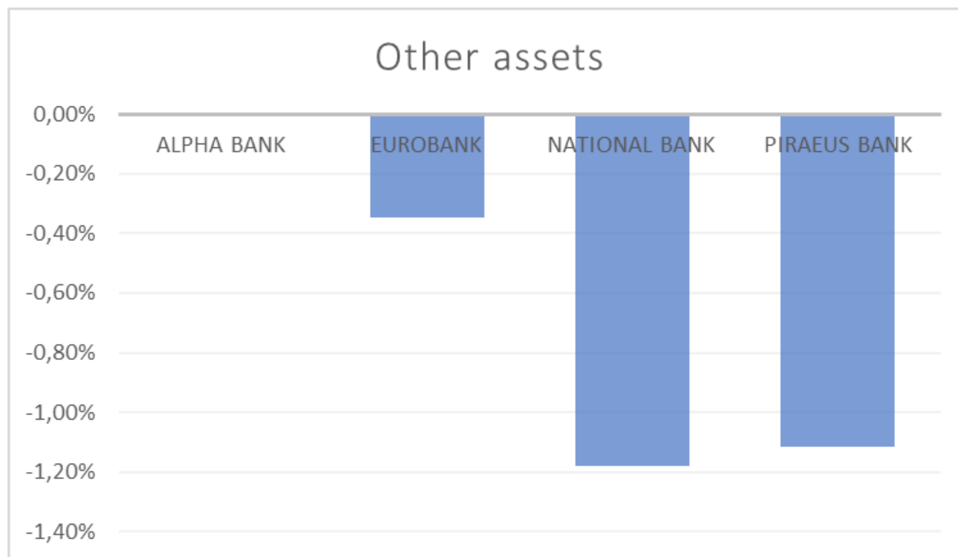

Figure 9: Other assets

ALPHA BANK's assets held for sale was decreased by about 0,17percent as a result of the reclassifications, the standard stipulated.

Figure 10: Assets held for sale

NATIONAL BANK's liabilities from derivative financial instruments were reduced about 49percent as the derivative financial instrument and the loan contract, it is associated to, were reclassified to the fair value through profit and loss.

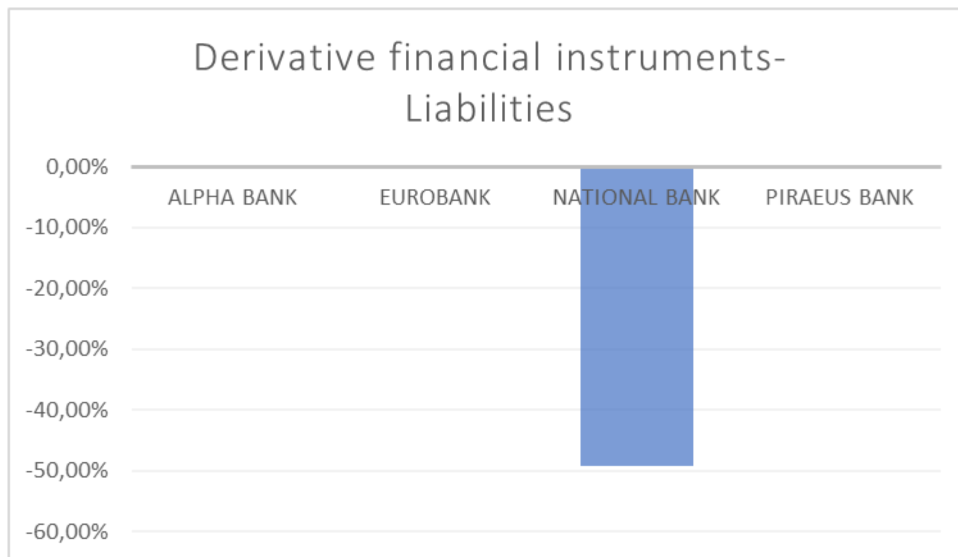

Figure 11: Derivative Financial Instruments - Liabilities

Deferred tax liabilities of NATIONAL BANK were completely erased in accordance with the reclassification and measurement of the assets, that led to the recognition of the liabilities.

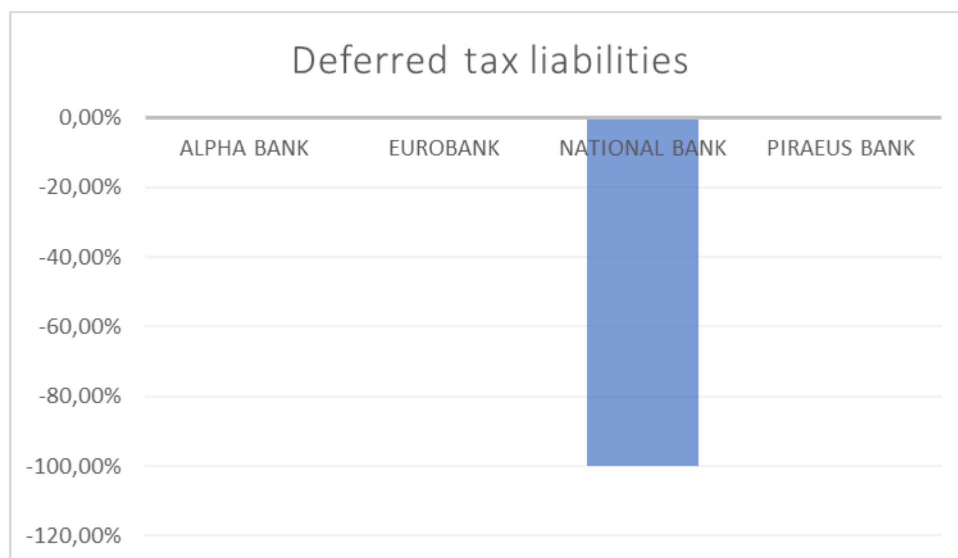

Figure 12: Deferred tax liabilities

Provisions were heightened for ALPHA BANK and NATIONAL BANK as a result of the impairment of loan assets. The ECL model led banks to recognise highest provisions for their loan contracts.

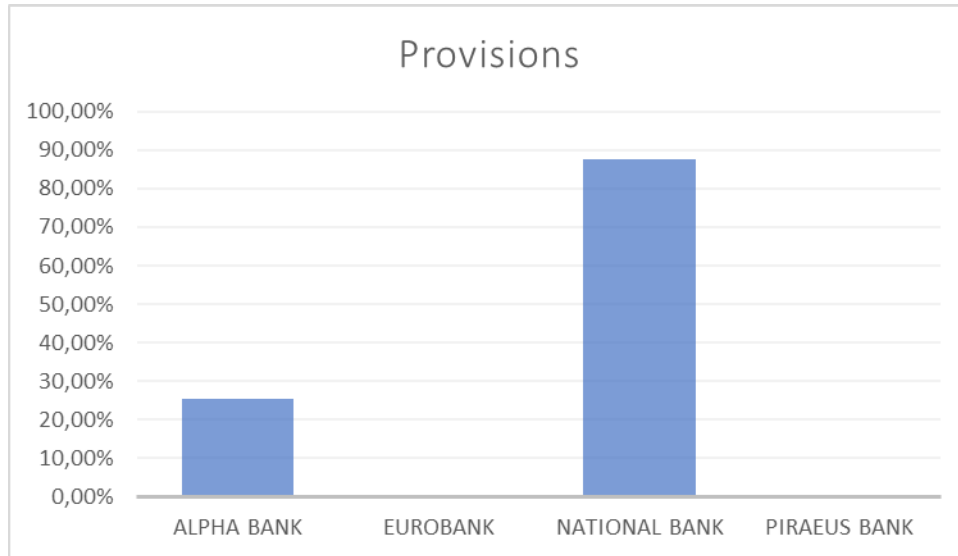

Figure 13: Provisions

The outcomes of all the above treatments are depicted in the reserves and retained earnings as the reclassifications and measurements at amortized cost or fair value through profit and loss or fair value through comprehensive income affected Shareholders' equity. The reserves of PIRAEUS BANK showed the greatest percentage growth, but in reality, it was increased just about € 11 million, the degree to which it is considered insignificant compared to the value of total equity.

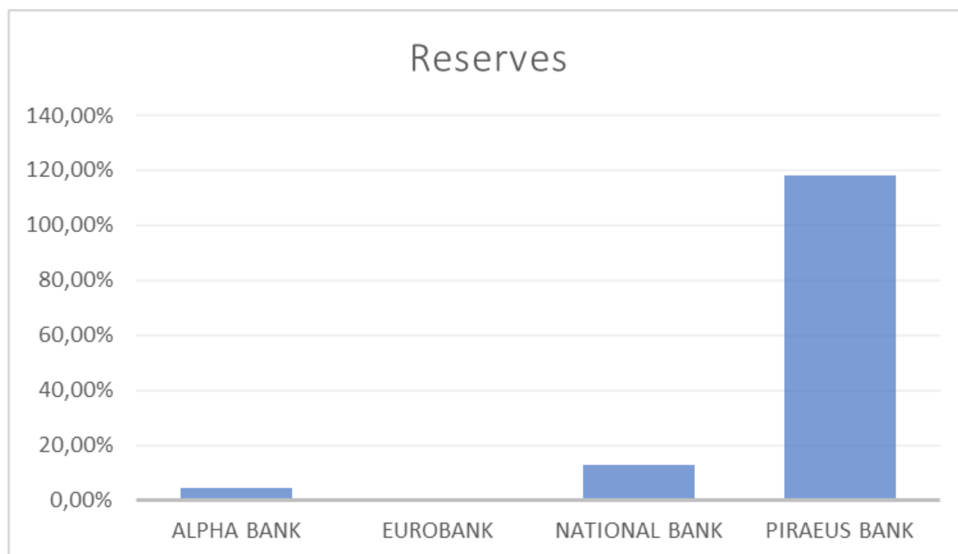

Figure 14: Reserves

Although, retained earnings were affected as much as possible from the modifications the implementation of IFRS 9 had led to. As it was expected, the ECL model, that impairment requirements demanded, led to recognise more losses and the existed negative retained earnings was raised to new higher negative levels.

Figure 15: Retained Earnings

In numbers, the difference in retained earnings from the implementation of the standard is:

Table 5: Impact on Retained Earnings

€ million		Retained earnings
ALPHA BANK	1.1.2018	-3.669
	31.12.2017	-2.490
	DIFFERENCE	-1.179
EUROBANK	1.1.2018	-11.659
	31.12.2017	-10.561
	DIFFERENCE	-1.098
NATIONAL BANK	1.1.2018	-11.812
	31.12.2017	-10.237
	DIFFERENCE	-1.575
PIRAEUS BANK	1.1.2018	-10.099
	31.12.2017	-8.327
	DIFFERENCE	-1.772

CHAPTER 5: CONCLUSION AND FUTURE RESEARCH

From 2001 until 2009 IAS 39 Financial Instruments: Recognition and Measurement was the primary standard providing directions about the way financial instruments should be treated. In November 2009 the International Accounting Standards Board issued the first version of IFRS 9 Financial Instruments, and by July 2014 the standard was completed. Although, the main problem from the first standard, it was that demanded from the entities to recognise credit losses with a small delay. It was necessary to be aware of the evidence of a trigger event, and that exactly led to the publishing of IFRS 9, which included an impairment model, that takes into consideration forward-looking information. These impairment requirements could lead to earlier recognition of credit losses, and all that by using the entity's management team's forecasts.

As the banks are significantly operating with financial instruments, it was expected, from the publication date of the standard, that they would be affected the most. The same opinion was expressed for the Greek banking system, too. The extent of that impact in the four Greek systemic banks was studied in the above chapter.

The critical impact of the changes in classification is the switch between amortised cost and fair value. The classification requirements and the changes in the categories led to a significant reduction in retained earnings as a high number of assets were classified at fair value through profit and loss. Additionally, modification in impairment requirements with expected credit loss model was supposed to raise loss allowance. In contrast to that, the right to follow IAS 39 hedge accounting was expected to affect the least the Greek banking system. One significant impact of IFRS 9 is the rise in loan loss provisions in accordance with the decrease in loan assets. It results from the use of ECL model compared to IAS 39's incurred loss model.

All the above verify the opinion that the new standard increases the credit loss allowances. The recognition of losses, based on forward-looking information and the usage of professional judgement, which raises subjectivity, is expected to raise banks' resilience to adverse economic events.

Despite all mentioned above, the fact that the banks made use of the right to not restate the 2017 comparatives indicates that any increased volatility in the performance

measures cannot be trusted, at least not until the standard take some time in order to embed into the system. Consequently, the study of the modification in the affected accounts through the next years will provide more extensive knowledge from the impact of the implementation of IFRS 9.

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APPENDIX A

Definitions

- 12 month expected credit losses[51]: The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
- Amortized cost of a financial instrument[52]: The amount at which the financial instrument is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.
- Contract assets[53]: Those rights that IFRS 15 Revenue from Contracts with Customers specifies are accounted for in accordance with IFRS 9 for the purposes of recognizing and measuring impairment gains or losses.
- Credit-impaired financial asset[54]: A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;

[51] IFRS 9,2017, Appendix A
[52] IFRS 9,2017, Appendix A
[53] IFRS 9,2017, Appendix A
[54] IFRS 9,2017, Appendix A

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event instead; the combined effect of several events may have caused financial assets to become credit-impaired.

- Credit loss[55]: The difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate (or credit adjusted effective interest rate for purchased or originated credit-impaired financial assets). An entity shall estimate cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. The cash flows that are considered shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. There is a presumption that the expected life of a financial instrument can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the entity shall use the remaining contractual term of the financial instrument.

- Credit-adjusted effective interest rate[56]: The rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortized cost of a financial asset that is a purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, an entity shall estimate the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the remaining life of a financial

[55] IFRS 9,2017, Appendix A
[56] IFRS 9,2017, Appendix A

instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

- Credit Risk[57]: The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- Derecognition[58]; The removal of a previously recognized financial instrument from an entity's statement of financial position.
- Derivative[59]: A financial instrument or other contract within the scope of IFRS 9 with all three of the following characteristics.

  (a) its value changes in response to the change in 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 (sometimes called the 'underlying').

  (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

  (c) it is settled at a future date.
- Dividends[60]: Distributions of profits to holders of equity instruments in proportion to their holdings of a particular class of capital.
- Effective interest method[61]: The method that is used in the calculation of the amortized cost of a financial asset or a financial liability and in the allocation and recognition of the interest revenue or interest expense in profit or loss over the relevant period.
- Effective interest rate[62]: The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial asset or to the amortized cost of a financial liability. When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. The

[57] IFRS 7,2019, Appendix A
[58] IFRS 9,2017, Appendix A
[59] IFRS 9,2017, Appendix A
[60] IFRS 9,2017, Appendix A
[61] IFRS 9,2017, Appendix A
[62] IFRS 9,2017, Appendix A

calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

- Equity instrument[63]: any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.
- Expected credit losses[64]: The weighted average of credit losses with the respective risks of a default occurring as the weights.
- Fair value[65] is the price 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.
- Financial instrument[66]: Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
- Financial asset[67]: any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:

(i) to receive cash or another financial asset from another entity; or

(ii) to exchange financial instruments with another entity under conditions that are potentially favourable to the entity, or

(d) a contract that will or may be settled in the entity's own equity instruments and is:

(i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or

[63] IAS 32, 2011, par. 11
[64] IFRS 9,2017, Appendix A
[65] IFRS 13, 2013, Appendix A
[66] IAS 32, 2011, par. 11
[67] IAS 32, 2011, par. 11

(ii) 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. For this purpose, the entity's own equity instruments do not include puttable financial instruments classified as equity instruments, instruments that impose on the entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation and are classified as equity instruments or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

- Financial liability[68]: any liability that is:

(a) a contractual obligation:

(i) to deliver cash or another financial asset to another entity; or

(ii) to exchange financial instruments with another entity under conditions that are potentially unfavourable to the entity, or

(b) a contract that will or may be settled in the entity's own equity instruments and is:

(i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or

(ii) 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. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the entity's own equity instruments do not include puttable financial instruments that are classified as equity instruments, instruments that impose on the entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation and are classified as equity instruments, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments. As an exception, an instrument that meets the

[68] IAS 32, 2011, par. 11

definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions that is defined in IAS 32.

- Financial guarantee contract[69]: A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.
- Financial liability at fair value through profit or loss[70]: A financial liability that meets one of the following conditions:

  (a) it meets the definition of held for trading.

  (b) upon initial recognition, it is designated by the entity as at fair value through profit or loss

  (c) it is designated either upon initial recognition or subsequently as at fair value through profit or loss.

- Firm commitment[71]: A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.
- Forecast transaction[72]: An uncommitted but anticipated future transaction.
- Gross carrying amount of a financial asset[73]: The amortized cost of a financial asset, before adjusting for any loss allowance.
- Hedge ratio[74]: The relationship between the quantity of the hedging instrument and the quantity of the hedged item in terms of their relative weighting.
- Held for trading[75]: A financial instrument that:

  (a) is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

  (b) on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

[69] IFRS 9,2017, Appendix A
[70] IFRS 9,2017, Appendix A
[71] IFRS 9,2017, Appendix A
[72] IFRS 9,2017, Appendix A
[73] IFRS 9,2017, Appendix A
[74] IFRS 9,2017, Appendix A
[75] IFRS 9,2017, Appendix A

(c) is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

- Impairment gain or loss[76]: Gains or losses that are recognized in profit or loss and that arise from applying the impairment requirements.
- Lifetime expected credit losses[77]: The expected credit losses that result from all possible default events over the expected life of a financial instrument.
- Loss allowance[78]: The allowance for expected credit losses on financial assets, lease receivables and contract assets, the accumulated impairment amount for financial assets and the provision for expected credit losses on loan commitments and financial guarantee contracts.
- Modification gain or loss[79]: The amount arising from adjusting the gross carrying amount of a financial asset to reflect the renegotiated or modified contractual cash flows. The entity recalculates the gross carrying amount of a financial asset as the present value of the estimated future cash payments or receipts through the expected life of the renegotiated or modified financial asset that are discounted at the financial asset's original effective interest rate (or the original credit adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate. When estimating the expected cash flows of a financial asset, an entity shall consider all contractual terms of the financial asset (for example, prepayment, call and similar options) but shall not consider the expected credit losses, unless the financial asset is a purchased or originated credit-impaired financial asset, in which case an entity shall also consider the initial expected credit losses that were considered when calculating the original credit adjusted effective interest rate.
- Past due[80]: A financial asset is past due when a counterparty has failed to make a payment when that payment was contractually due.
- Purchased or originated credit-impaired financial asset[81]: Purchased or originated financial asset(s) that are credit impaired on initial recognition.

[76] IFRS 9,2017, Appendix A
[77] IFRS 9,2017, Appendix A
[78] IFRS 9,2017, Appendix A
[79] IFRS 9,2017, Appendix A
[80] IFRS 9,2017, Appendix A
[81] IFRS 9,2017, Appendix A

- Reclassification date[82]: The first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.
- Regular way purchase or sale[83]: A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.
- Transaction costs[84]: Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.
- Transaction Price (for a contract with a customer)[85]: The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

[82] IFRS 9,2017, Appendix A
[83] IFRS 9,2017, Appendix A
[84] IFRS 9,2017, Appendix A
[85] IFRS 15,2016, Appendix A