

**International Financial Reporting Standard**

# **Financial Instruments**

**July 2014**

**IMPLEMENTATION GUIDANCE – AMENDMENTS**

**[IFRS 1, 4, 5 & 7, IAS 1, 32, 37 & 39 and IFRIC 16]**

**[Related to AASB 2014-7]**

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## Appendix

### Amendments to guidance on other Standards

*The following amendments to guidance on Standards are necessary in order to ensure consistency with IFRS 9 Financial Instruments and the related amendments to other Standards.*

#### **IFRS 1 *First-time Adoption of International Financial Reporting Standards***

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- IGA1 The heading above paragraph IG52 and paragraphs IG52–IG58A and IG59–IG60B are amended to read as follows:

#### **IFRS 9 *Financial Instruments***

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- IG52 An entity recognises and measures all financial assets and financial liabilities in its opening IFRS statement of financial position in accordance with IFRS 9, except as specified in paragraphs B2–B6 of the IFRS, which address derecognition and hedge accounting.

#### **Recognition**

- IG53 An entity recognises all financial assets and financial liabilities (including all derivatives) that qualify for recognition in accordance with IFRS 9 and have not yet qualified for derecognition in accordance with IFRS 9, except non-derivative financial assets and non-derivative financial liabilities derecognised in accordance with previous GAAP before 1 January 2004, to which the entity does not choose to apply paragraph B3 (see paragraphs B2 and B3 of the IFRS). For example, an entity that does not apply paragraph B3 does not recognise assets transferred in a securitisation, transfer or other derecognition transaction that occurred before 1 January 2004 if those transactions qualified for derecognition in accordance with previous GAAP. However, if the entity uses the same securitisation arrangement or other derecognition arrangement for further transfers after 1 January 2004, those further transfers qualify for derecognition only if they meet the derecognition criteria of IFRS 9.
- IG54 An entity does not recognise financial assets and financial liabilities that do not qualify for recognition in accordance with IFRS 9, or have already qualified for derecognition in accordance with IFRS 9.

#### **Embedded derivatives**

- IG55 When IFRS 9 requires an entity to separate an embedded derivative from a host contract, the initial carrying amounts of the components at the date when the instrument first satisfies the recognition criteria in IFRS 9 reflect circumstances at that date (IFRS 9 paragraph 4.3.3). If the entity cannot determine the initial carrying amounts of the embedded derivative and host contract reliably, it measures the entire combined contract as at fair value through profit or loss (IFRS 9 paragraph 4.3.6).

## Measurement

- IG56 In preparing its opening IFRS statement of financial position, an entity applies the criteria in IFRS 9 to classify financial instruments on the basis of the facts and circumstances that exist at the date of transition to IFRSs. The resulting classifications are applied retrospectively.
- IG57 For those financial assets and financial liabilities measured at amortised cost in the opening IFRS statement of financial position, an entity determines the gross carrying amount of the financial assets and the amortised cost of the financial liabilities on the basis of circumstances existing when the assets and liabilities first satisfied the recognition criteria in IFRS 9. However, if the entity acquired those financial assets and financial liabilities in a past business combination, their carrying amount in accordance with previous GAAP immediately following the business combination is their deemed cost in accordance with IFRSs at that date (paragraph C4(e) of the IFRS).

## Transition adjustments

- IG58A An entity shall treat an adjustment to the carrying amount of a financial asset or financial liability as a transition adjustment to be recognised in the opening balance of retained earnings (or another component of equity, as appropriate) at the date of transition to IFRSs only to the extent that it results from adopting IFRS 9. Because all derivatives, other than those that are financial guarantee contracts, a commitment to provide a loan at a below-market interest rate, a loan commitment that is subject to the impairment requirements of IFRS 9 or are designated and effective hedging instruments, are measured at fair value through profit or loss, the differences between the previous carrying amount (which may have been zero) and the fair value of the derivatives are recognised as an adjustment of the balance of retained earnings at the beginning of the financial year in which IFRS 9 is initially applied (other than for a derivative that is a financial guarantee contract, a commitment to provide a loan at a below-market interest rate or a designated and effective hedging instrument).
- IG59 An entity may, in accordance with its previous GAAP, have measured investments at fair value and recognised the revaluation gain outside profit or loss. If an investment is classified as at fair value through profit or loss, the pre-IFRS 9 revaluation gain that had been recognised outside profit or loss is reclassified into retained earnings on initial application of IFRS 9. If, on initial application of IFRS 9, an investment is measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of IFRS 9 or is designated at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9, then the pre-IFRS 9 revaluation gain is recognised in a separate component of equity. Subsequently, the entity recognises gains and losses on these financial assets in accordance with IFRS 9.

## Hedge accounting

IG60 Paragraphs B4–B6 of the IFRS deal with hedge accounting. The designation and documentation of a hedge relationship must be completed on or before the date of transition to IFRSs if the hedge relationship is to qualify for hedge accounting from that date. Hedge accounting can be applied prospectively only from the date that the hedge relationship is fully designated and documented.

IG60A An entity may, in accordance with its previous GAAP, have deferred or not recognised gains and losses on a fair value hedge of a hedged item that is not measured at fair value. For such a fair value hedge, an entity adjusts the carrying amount of the hedged item at the date of transition to IFRSs. The adjustment is the lower of:

- (a) that portion of the cumulative change in the fair value of the hedged item that was not recognised in accordance with previous GAAP; and
- (b) that portion of the cumulative change in the fair value of the hedging instrument and, in accordance with previous GAAP, was either (i) not recognised or (ii) deferred in the statement of financial position as an asset or liability.

IG60B An entity may, in accordance with its previous GAAP, have deferred gains and losses on a cash flow hedge of a forecast transaction. If, at the date of transition to IFRSs, the hedged forecast transaction is not highly probable, but is expected to occur, the entire deferred gain or loss is recognised in the cash flow hedge reserve within equity. Any net cumulative gain or loss that has been reclassified to the cash flow hedge reserve on initial application of IFRS 9 remains there until (a) the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, (b) the forecast transaction affects profit or loss or (c) subsequently circumstances change and the forecast transaction is no longer expected to occur, in which case any related net cumulative gain or loss is reclassified from the cash flow hedge reserve to profit or loss. If the hedging instrument is still held, but the hedge does not qualify as a cash flow hedge in accordance with IFRS 9, hedge accounting is no longer appropriate starting from the date of transition to IFRSs.

IGA2 IG Example 11, paragraph IG63 is amended to read as follows:

The table 'Reconciliation of equity at 1 January 20X4 (date of transition to IFRSs)' is amended to read as follows:

Reconciliation of equity at 1 January 20X4 (date of transition to IFRSs)				
Note		Previous GAAP	Effect of transition to IFRSs	IFRSs
		CU	CU	CU
1	Property, plant and equipment	8,299	100	8,399
2	Goodwill	1,220	150	1,370
2	Intangible assets	208	(150)	58
3	Financial assets	3,471	420	3,891
	Total non-current assets	13,198	520	13,718
	Trade and other receivables	3,710	0	3,710
4	Inventories	2,962	400	3,362
5	Other receivables	333	431	764
	Cash and cash equivalents	748	0	748
	Total current assets	7,753	831	8,584
	Total assets	20,951	1,351	22,302
	Interest-bearing loans	9,396	0	9,396
	Trade and other payables	4,124	0	4,124
6	Employee benefits	0	66	66
7	Restructuring provision	250	(250)	0
	Current tax liability	42	0	42
8	Deferred tax liability	579	460	1,039
	Total liabilities	14,391	276	14,667
	Total assets less total liabilities	6,560	1,075	7,635
	Issued capital	1,500	0	1,500
5	Cash flow hedge reserve	0	302	302
9	Retained earnings	5,060	773	5,833
	Total equity	6,560	1,075	7,635

Note 3 to the reconciliation of equity at 1 January 20X4 is amended to read as follows:

- |   |   |
|---|---|
| 3 | Financial assets are all classified as at fair value through profit or loss in accordance with IFRSs and are carried at their fair value of CU3,891. They were carried at cost of CU3,471 in accordance with previous GAAP. The resulting gains of CU294 (CU420, less related deferred tax of CU126) are included in retained earnings. |
|---|---|

Note 5 to the reconciliation of equity at 1 January 20X4 is amended to read as follows:

- |   |   |
|---|---|
| 5 | Unrealised gains of CU431 on unmatured forward foreign exchange contracts are recognised in accordance with IFRSs, but were not recognised in accordance with previous GAAP. The resulting gains of CU302 (CU431, less related deferred tax of CU129) are included in the cash flow hedge reserve because the contracts hedge forecast sales. |
|---|---|

Note 8 to the reconciliation of equity at 1 January 20X4 is amended to read as follows:

- | 8                                  | <p>The above changes increased the deferred tax liability as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: right;">CU</th> </tr> </thead> <tbody> <tr> <td>Cash flow hedge reserve (note 5)</td> <td style="text-align: right;">129</td> </tr> <tr> <td>Retained earnings</td> <td style="text-align: right;">331</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">460</td> </tr> <tr> <td>Increase in deferred tax liability</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">460</td> </tr> </tbody> </table> <p>Because the tax base at 1 January 20X4 of the items reclassified from intangible assets to goodwill (note 2) equalled their carrying amount at that date, the reclassification did not affect deferred tax liabilities.</p> |  | CU | Cash flow hedge reserve (note 5) | 129 | Retained earnings | 331 |  | 460 | Increase in deferred tax liability | 460 |
|------------------------------------|---|--|----|----------------------------------|-----|-------------------|-----|--|-----|------------------------------------|-----|
|                                    | CU  |  |    |                                  |     |                   |     |  |     |                                    |     |
| Cash flow hedge reserve (note 5)   | 129   |  |    |                                  |     |                   |     |  |     |                                    |     |
| Retained earnings                  | 331   |  |    |                                  |     |                   |     |  |     |                                    |     |
|                                    | 460   |  |    |                                  |     |                   |     |  |     |                                    |     |
| Increase in deferred tax liability | 460   |  |    |                                  |     |                   |     |  |     |                                    |     |

Note 9 to the reconciliation of equity at 1 January 20X4 is amended to read as follows:

9	The adjustments to retained earnings are as follows:	
		CU
	Depreciation (note 1)	100
	Financial assets (note 3)	420
	Production overhead (note 4)	400
	Pension liability (note 6)	(66)
	Restructuring provision (note 7)	250
	Tax effect of the above	(331)
	Total adjustment to retained earnings	<u>773</u>

The reconciliation of total comprehensive income for 20X4 is amended to read as follows:

Reconciliation of total comprehensive income for 20X4				
Note		Previous GAAP	Effect of transition to IFRSs	IFRSs
		CU	CU	CU
	Revenue	20,910	0	20,910
1,2,3	Cost of sales	(15,283)	(97)	(15,380)
	Gross profit	5,627	(97)	5,530
6	Other income	0	180	180
1	Distribution costs	(1,907)	(30)	(1,937)
1,4	Administrative expenses	(2,842)	(300)	(3,142)
	Finance income	1,446	0	1,446
	Finance costs	(1,902)	0	(1,902)
	Profit before tax	422	(247)	175
5	Tax expense	(158)	74	(84)
	<b>Profit (loss) for the year</b>	264	(173)	91
7	Cash flow hedges	0	(40)	(40)
8	Tax relating to other comprehensive income	0	(29)	(29)
	<b>Other comprehensive income</b>	0	(69)	(69)
	<b>Total comprehensive income</b>	264	(242)	22

Note 6 to the reconciliation of total comprehensive income for 20X4 is amended to read as follows:

6	Financial assets at fair value through profit or loss increased in value by CU180 during 20X4. They were carried at cost in accordance with previous GAAP. Fair value changes have been included in 'Other income'.
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## IFRS 4 *Insurance Contracts*

IGA3 In the table in IG Example 1, the 'Treatment in Phase I' column of contract types 1.7–1.12, 1.15 and 1.18–1.20 are amended to read as follows:

1.7	Not an insurance contract at inception, if the insurer can reprice the mortality risk without constraints. Within the scope of IFRS 9 <i>Financial Instruments</i> unless the contract contains a discretionary participation feature. Will become an insurance contract when the annuity rate is fixed (unless the contingent amount is insignificant in all scenarios that have commercial substance).
1.8	Within the scope of IFRS 9.
1.9	Paragraph 35 of the IFRS sets out requirements for these contracts, which are excluded from the scope of IFRS 9.
1.10	Within the scope of IFRS 9. Payments denominated in unit values representing the fair value of the specified assets are measured at current unit value (see paragraph B4.3.8(g) of IFRS 9).
1.11	Insurance contract, but within the scope of IFRS 9, not IFRS 4. However, if the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either IFRS 9 and IAS 32 <sup>(b)</sup> or IFRS 4 to such financial guarantee contracts. The legal form of the contract does not affect its recognition and measurement. Accounting by the holder of such a contract is excluded from the scope of IFRS 9 and IFRS 4 (unless the contract is a reinsurance contract). Therefore, paragraphs 10–12 of IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> apply. Those paragraphs specify criteria to use in developing an accounting policy if no IFRS applies specifically to an item.
1.12	Not an insurance contract. A derivative within the scope of IFRS 9.

*continued...*



...continued

1.15	<p>Insurance contract within the scope of the IFRS (unless changes in the condition of the asset have an insignificant effect). The risk of changes in the fair value of the non-financial asset is not a financial risk because the fair value reflects not only changes in market prices for such assets (a financial variable) but also the condition of the specific asset held (a non-financial variable).</p> <p>However, if the contract compensates the beneficiary only for changes in market prices and not for changes in the condition of the beneficiary's asset, the contract is a derivative and within the scope of IFRS 9.</p> <p>Residual value guarantees given by a lessee under a finance lease are within the scope of IAS 17 <i>Leases</i>.</p>
1.18	Insurance risk is insignificant. Therefore, the contract is a financial asset within the scope of IFRS 9. Servicing fees are within the scope of IFRS 15 (recognise when (or as) services are provided, subject to various conditions).
1.19	Financial instrument with embedded derivative within the scope of IFRS 9.
1.20	<p>The contract is an insurance contract, and contains an insurance component (with the issuer as policyholder and the holder as the insurer) and a deposit component.</p> <p>(a) If specified conditions are met, paragraph 10 of the IFRS requires the holder to unbundle the deposit component and apply IFRS 9 to it.</p> <p>(b) ...</p>

IGA4 Paragraph IG3 is amended to read as follows:

IG3 IFRS 9 requires an entity to separate embedded derivatives that meet specified conditions from the host instrument that contains them, measure the embedded derivatives at fair value and recognise changes in their fair value in profit or loss. However, an insurer need not separate an embedded derivative that itself meets the definition of an insurance contract (paragraph 7 of the IFRS). Nevertheless, separation and fair value measurement of such an embedded derivative are not prohibited if the insurer's existing accounting policies require such separation, or if an insurer changes its accounting policies and that change meets the criteria in paragraph 22 of the IFRS.

IGA5 In the table in IG Example 2, the 'Treatment if embedded in a host insurance contract' and 'Treatment if embedded in a host investment contract' columns of embedded derivative types 2.4, 2.5, 2.6(b), 2.12 and 2.14–2.17 are amended to read as follows:

<b>IG Example 2: Embedded derivatives</b>		
<b>Type</b>	<b><i>Treatment if embedded in a host insurance contract</i></b>	<b><i>Treatment if embedded in a host investment contract</i></b>
2.4	<p>The embedded guarantee is not an insurance contract (unless significant payments are life-contingent<sup>(a)</sup>). However, it is closely related to the host contract (paragraph B4.3.8(b) of IFRS 9). Fair value measurement is not required (but not prohibited). If significant payments are life-contingent, the contract is an insurance contract and contains a deposit component (the guaranteed minimum). However, an insurer is not required to unbundle the contract if it recognises all obligations arising from the deposit component (paragraph 10 of the IFRS). If cancelling the deposit component requires the policyholder to cancel the insurance component, the two cancellation options may be interdependent; if the option to cancel the deposit component cannot be measured separately (ie without considering the other option), both options are regarded as part of the insurance component (paragraph B4.3.8(h) of IFRS 9).</p>	<p>Fair value measurement is not permitted (paragraph B4.3.8(b) of IFRS 9).</p>
2.5	<p>The embedded guarantee is not an insurance contract (unless the embedded guarantee is life-contingent to a significant extent). Fair value measurement is required (paragraph B4.3.8(b) of IFRS 9).</p>	<p>Fair value measurement is required (paragraph B4.3.8(b) of IFRS 9).</p>

continued...

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2.6(b)	The embedded derivative is not an insurance contract. Fair value measurement is required (unless the guarantee is regarded as closely related to the host contract because the guarantee is an unleveraged interest floor that is at or out of the money at inception, see paragraph B4.3.8(b) of IFRS 9).	Fair value measurement is required (unless the guarantee is regarded as closely related to the host contract because the guarantee is an unleveraged interest floor that is at or out of the money at inception, see paragraph B4.3.8(b) of IFRS 9).
2.12	<p>Fair value measurement is not required (but not prohibited: paragraph 8 of the IFRS).</p> <p>The surrender value may be viewed as a deposit component, but the IFRS does not require an insurer to unbundle a contract if it recognises all its obligations arising under the deposit component (paragraph 10).</p>	The surrender option is closely related to the host contract if the surrender value is approximately equal to the amortised cost at each exercise date (paragraph B4.3.5(e) of IFRS 9). Otherwise, the surrender option is measured at fair value.
2.14	The option is not closely related to the host contract (unless the option is life-contingent to a significant extent). Fair value measurement is required (paragraphs 8 of the IFRS and B4.3.5(c) and (d) of IFRS 9).	Fair value measurement is required (paragraph B4.3.5(c) and (d) of IFRS 9).
2.15	If the insurer measures that portion of its obligation at account value, no further adjustment is needed for the option (unless the surrender value differs significantly from account value) (see paragraph B4.3.8(g) of IFRS 9). Otherwise, fair value measurement is required.	If the insurer regards the account value as the amortised cost or fair value of that portion of its obligation, no further adjustment is needed for the option (unless the surrender value differs significantly from account value). Otherwise, fair value measurement is required.

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2.16	The embedded derivative is not an insurance contract and is not closely related to the contract (paragraph B4.3.5(f) of IFRS 9). Fair value measurement is required.	Fair value measurement is required.
2.17	The embedded derivative (option to receive the persistency bonus) is not an insurance contract (unless the persistency bonus is life-contingent to a significant extent). Insurance risk does not include lapse or persistency risk (paragraph B15 of the IFRS). Fair value measurement is required.	An option or automatic provision to extend the remaining term to maturity of a debt instrument is not closely related to the host debt instrument unless there is a concurrent adjustment to the approximate current market rate of interest at the time of the extension (paragraph B4.3.5(b) of IFRS 9). If the option or provision is not closely related to the host instrument, fair value measurement is required.

IGA6

IG Example 3 is amended to read as follows:

**IG Example 3: Unbundling a deposit component of a reinsurance contract**
*Application of requirements: case 1—no claims*

...

If the reinsurer is required, or elects, to unbundle the contract, it does so as follows. Each payment by the cedant has two components: a loan advance (deposit component) and a payment for insurance cover (insurance component). Applying IFRS 9 to the deposit component, the reinsurer is required to measure it initially at fair value. Fair value could be determined by discounting the future cash flows from the deposit component. Assume that an appropriate discount rate is 10 per cent and that the insurance cover is equal in each year, so that the payment for insurance cover is the same in every year. Each payment of CU10 by the cedant is then made up of a loan advance of CU6.7 and an insurance premium of CU3.3.

...

continued...

...continued

<b>IG Example 3: Unbundling a deposit component of a reinsurance contract</b>
<p><i>Incremental cash flows because of the claim in year 1</i></p> <p>...</p> <p>The incremental cash flows have a present value, in year 1, of CU35 (assuming a discount rate of 10 per cent is appropriate). Applying paragraphs 10–12 of the IFRS, the cedant unbundles the contract and applies IFRS 9 to this deposit component (unless the cedant already recognises its contractual obligation to repay the deposit component to the reinsurer). If this were not done, the cedant might recognise the CU150 received in year 1 as income, and the incremental payments in years 2–5 as expenses. However, in substance, the reinsurer has paid a claim of CU35 and made a loan of CU115 (CU150 less CU35) that will be repaid in instalments.</p> <p>...</p>

IGA7 Paragraph IG7 and IG Example 4 are amended to read as follows:

IG7 Shadow accounting is not the same as fair value hedge accounting under IFRS 9 and will not usually have the same effect.

<b>IG Example 4: Shadow accounting</b>
<p><i>Background</i></p> <p>...</p> <p>At the inception of a contract, insurer A has DAC of CU20 relating to that contract and the present value, at inception, of EGP is CU100. In other words, DAC is 20 per cent of EGP at inception. Thus, for each CU1 of realised gross profits, insurer A amortises DAC by CU0.20. For example, if insurer A sells assets and recognises a gain of CU10, insurer A amortises DAC by CU2 (20 per cent of CU10).</p> <p>Before adopting IFRSs for the first time in 20X5, insurer A measured financial assets on a cost basis. (Therefore, EGP under those national requirements considers only realised gains and losses.) However, under IFRSs, it classifies its financial assets as measured at fair value through profit or loss.</p> <p>In 20X5, insurer A recognises unrealised gains of CU10 on the assets backing the contract and in 20X6 it sells the assets for an amount equal to their fair value at the end of 20X5.</p>

continued...

...continued

<b>IG Example 4: Shadow accounting</b>
<p><i>Application of paragraph 30 of the IFRS</i></p> <p>Paragraph 30 of the IFRS permits, but does not require, insurer A to adopt shadow accounting. If insurer A adopts shadow accounting, it amortises DAC in 20X5 by an additional CU2 (20 per cent of CU10) as a result of the change in the fair value of the assets. Insurer A recognises the additional amortisation of CU2 in profit or loss.</p> <p>When insurer A sells the assets in 20X6, it makes no further adjustment to DAC.</p> <p>In summary, shadow accounting treats an unrealised gain in the same way as a realised gain. If insurer A does not adopt shadow accounting, unrealised gains on assets do not affect the amortisation of DAC.</p>

IGA8 Paragraph IG65A is amended to read as follows:

IG65A The issuer of a financial guarantee contract provides disclosures complying with IFRS 7 if it applies IFRS 9 in recognising and measuring the contract. If the issuer elects, when permitted by paragraph 4(d) of IFRS 4, to apply IFRS 4 in recognising and measuring the contract, it provides disclosures complying with IFRS 4. The main implications are as follows:

- (a) IFRS 4 requires disclosure about actual claims compared with previous estimates (claims development), but does not require disclosure of the fair value of the contract.
- (b) IFRS 7 requires disclosure of the fair value of the contract, but does not require disclosure of claims development.

## **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**

IGA9 The tables in Example 10 are amended to read as follows:

	Carrying amount at the end of the reporting period before classification as held for sale	Carrying amount as remeasured immediately before classification as held for sale
	CU <sup>(a)</sup>	CU
Goodwill	1,500	1,500
Property, plant and equipment (carried at revalued amounts)	4,600	4,000
Property, plant and equipment (carried at cost)	5,700	5,700
Inventory	2,400	2,200
Investments in equity instruments	1,800	1,500
<b>Total</b>	<b>16,000</b>	<b>14,900</b>

(a) In this guidance, monetary amounts are denominated in 'currency units (CU)'.

...

The impairment loss is allocated to non-current assets to which the measurement requirements of the IFRS are applicable. Therefore, no impairment loss is allocated to inventory and investments in equity instruments. The loss is allocated to the other assets in the order of allocation set out in paragraphs 104 and 122 of IAS 36 (as revised in 2004).

...

	Carrying amount as remeasured immediately before classification as held for sale	Allocated impairment loss	Carrying amount after allocation of impairment loss
	CU	CU	CU
Goodwill	1,500	(1,500)	0
Property, plant and equipment (carried at revalued amounts)	4,000	(165)	3,835
Property, plant and equipment (carried at cost)	5,700	(235)	5,465
Inventory	2,200	—	2,200
Investments in equity instruments	1,500	—	1,500
<b>Total</b>	<b>14,900</b>	<b>(1,900)</b>	<b>13,000</b>

IGA10 The table in Example 12 is amended to read as follows:

	Carrying amount after classification as held for sale	
	Disposal group I: CU	Disposal group II: CU
Property, plant and equipment	4,900	1,700
Investments in equity instruments	1,400 <sup>(a)</sup>	–
Liabilities	(2,400)	(900)
<b>Net carrying amount of disposal group</b>	<b>3,900</b>	<b>800</b>
(a) An amount of CU400 relating to these assets has been recognised in other comprehensive income and accumulated in equity.		

## IFRS 7 *Financial Instruments: Disclosures*

IGA11 The heading above paragraph IG7 and paragraphs IG7–IG11 are deleted.

IGA12 Paragraph IG14 and the illustrative disclosure following paragraph IG14 are amended to read as follows:

IG14 At initial recognition an entity measures the fair value of financial instruments that are not traded in active markets. However, when, after initial recognition, an entity will use a valuation technique that incorporates data not obtained from observable markets, there may be a difference between the transaction price at initial recognition and the amount determined at initial recognition using that valuation technique. In these circumstances, the difference will be recognised in profit or loss in subsequent periods in accordance with IFRS 9 and the entity's accounting policy. Such recognition reflects changes in factors (including time) that market participants take into account when pricing the asset or liability (see paragraph B5.1.2A(b) of IFRS 9). Paragraph 28 requires disclosures in these circumstances. An entity might disclose the following to comply with paragraph 28:

...

### *Accounting policies*

The entity uses the following valuation technique to determine the fair value of financial instruments that are not traded in an active market: [description of technique, not included in this example]. Differences may arise between the fair value at initial recognition (which, in accordance with IFRS 13 and IFRS 9, is normally the transaction price) and the amount determined at initial recognition using the valuation technique. Any such differences are [description of the entity's accounting policy].

*continued...*



...continued

*In the notes to the financial statements*

As discussed in note X, the entity uses [name of valuation technique] to measure the fair value of the following financial instruments that are not traded in an active market. However, in accordance with IFRS 13 and IFRS 9, the fair value of an instrument at inception is normally the transaction price. If the transaction price differs from the amount determined at inception using the valuation technique, that difference is [description of the entity's accounting policy].

IGA13 Paragraph IG36 is amended to read as follows:

IG36 The following example illustrates the application of the disclosure requirement in paragraph 40(a):

**Interest rate risk**

At 31 December 20X2, if interest rates at that date had been 10 basis points lower with all other variables held constant, post-tax profit for the year would have been CU1.7 million (20X1—CU2.4 million) higher, arising mainly as a result of lower interest expense on variable borrowings. If interest rates had been 10 basis points higher, with all other variables held constant, post-tax profit would have been CU1.5 million (20X1—CU2.1 million) lower, arising mainly as a result of higher interest expense on variable borrowings. Profit is more sensitive to interest rate decreases than increases because of borrowings with capped interest rates. The sensitivity is lower in 20X2 than in 20X1 because of a reduction in outstanding borrowings that has occurred as the entity's debt has matured (see note X). [footnote omitted] ...

IGA14 A heading and paragraphs IG13C–IG13E are added:

**Hedge accounting (paragraphs 24A–24C)**

IG13C Paragraph 24A of IFRS 7 requires that an entity discloses amounts related to items designated as hedging instruments in a tabular format. The following example illustrates how that information might be disclosed.

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for 20X1
		Assets	Liabilities		
Cash flow hedges					
Commodity price risk - Forward sales contracts	Xx	xx	xx	Line item XX	xx
Fair value hedges					
Interest rate risk - Interest rate swaps	Xx	xx	xx	Line item XX	xx
Foreign exchange risk - Foreign currency loan	Xx	xx	xx	Line item XX	xx

IG13D Paragraph 24B of IFRS 7 requires that an entity discloses amounts related to items designated as hedged items in a tabular format. The following example illustrates how that information might be disclosed.

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Line item in the statement of financial position in which the hedged item is included	Change in value used for calculating hedge ineffectiveness for 20X1	Cash flow hedge reserve
	Assets	Liabilities	Assets	Liabilities			
Cash flow hedges							
Commodity price risk							
- Forecast sales	n/a	n/a	n/a	n/a	n/a	xx	xx
- Discontinued hedges (forecast sales)	n/a	n/a	n/a	n/a	n/a	n/a	xx

*continued...*

...continued

Fair value hedges							
<b>Interest rate risk</b>					Line item		
- Loan payable	—	xx	—	xx	XX	xx	n/a
- Discontinued hedges (Loan payable)	—	xx	—	xx	Line item XX	n/a	n/a
<b>Foreign exchange risk</b>							
- Firm commitment	xx	xx	xx	xx	Line item XX	xx	n/a

IG13E Paragraph 24C of IFRS 7 requires that an entity discloses amounts that have affected the statement of comprehensive income as a result of applying hedge accounting in a tabular format. The following example illustrates how that information might be disclosed.

Cash flow hedges <sup>(a)</sup>	Separate line item recognised in profit or loss as a result of a hedge of a net position <sup>(b)</sup>	Change in the value of the hedging instrument recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss (that includes hedge ineffectiveness)	Amount reclassified from the cash flow hedge reserve to profit or loss	Line item affected in profit or loss because of the reclassification
Commodity price risk						
Commodity X	n/a	xx	xx	Line item XX	xx	Line item XX
- Discontinued hedge	n/a	n/a	n/a	n/a	xx	Line item XX
<p>(a) The information disclosed in the statement of changes in equity (cash flow hedge reserve) should have the same level of detail as these disclosures.</p> <p>(b) This disclosure only applies to cash flow hedges of foreign currency risk.</p>						

Fair value hedges	Ineffectiveness recognised in profit or loss	Line item(s) in profit or loss (that include(s) hedge ineffectiveness)
Interest rate risk	xx	Line item XX
Foreign exchange risk	xx	Line item XX

IGA15 Headings and paragraphs IG20A–IG20D are added and headings and paragraphs IG23–IG29 are deleted:

## Credit risk (paragraphs 35A–36, B8A–B10)

IG20A The following examples illustrate possible ways in which an entity might provide the disclosures required by paragraphs 35A–35N of IFRS 7. However, these illustrations do not address all possible ways of applying the disclosure requirements.

### Illustrating the application of paragraphs 35H and 35I

IG20B The following example illustrates one way of providing information about the changes in the loss allowance and the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance as required by paragraphs 35H–35I. This example does not illustrate the requirements for financial assets that are purchased or originated credit-impaired.

<b>Mortgage loans–loss allowance</b>	<b>12-month expected credit losses</b>	<b>Lifetime expected credit losses (collectively assessed)</b>	<b>Lifetime expected credit losses (individually assessed)</b>	<b>Credit- impaired financial assets (lifetime expected credit losses)</b>
CU'000				
<b>Loss allowance as at 1 January</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Changes due to financial instruments recognised as at 1 January:	X	–	(X)	–
- Transfer to lifetime expected credit losses	(X)	X	X	–
- Transfer to credit-impaired financial assets	(X)	–	(X)	X
- Transfer to 12-month expected credit losses	X	(X)	(X)	–
- Financial assets that have been derecognised during the period	(X)	(X)	(X)	(X)
New financial assets originated or purchased	X	–	–	–
Write-offs	–	–	(X)	(X)
Changes in models/risk parameters	X	X	X	X
Foreign exchange and other movements	X	X	X	X
<b>Loss allowance as at 31 December</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

Significant changes in the gross carrying amount of mortgage loans that contributed to changes in the loss allowance were:

- The acquisition of the ABC prime mortgage portfolio increased the residential mortgage book by x per cent, with a corresponding increase in the loss allowance measured on a 12-month basis.

- The write off of the CUXX DEF portfolio following the collapse of the local market reduced the loss allowance for financial assets with objective evidence of impairment by CUX.
- The expected increase in unemployment in Region X caused a net increase in financial assets whose loss allowance is equal to lifetime expected credit losses and caused a net increase of CUX in the lifetime expected credit losses allowance.

The significant changes in the gross carrying amount of mortgage loans are further explained below:

<b>Mortgage loans—gross carrying amount</b>	<b>12-month expected credit losses</b>	<b>Lifetime expected credit losses (collectively assessed)</b>	<b>Lifetime expected credit losses (individually assessed)</b>	<b>Credit- impaired financial assets (lifetime expected credit losses)</b>
CU'000				
<b>Gross carrying amount as at 1 January</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Individual financial assets transferred to lifetime expected credit losses	(X)	—	X	—
Individual financial assets transferred to credit-impaired financial assets	(X)	—	(X)	X
Individual financial assets transferred from credit-impaired financial assets	X	—	X	(X)
Financial assets assessed on collective basis	(X)	X	—	—
New financial assets originated or purchased	X	—	—	—
Write-offs	—	—	(X)	(X)
Financial assets that have been derecognised	(X)	(X)	(X)	(X)
Changes due to modifications that did not result in derecognition	(X)	—	(X)	(X)
Other changes	X	X	X	X
<b>Gross carrying amount as at 31 December</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

### Illustrating the application of paragraphs 35M and 35N

IG20C The following example illustrates some ways of providing information about an entity's credit risk exposure and significant credit risk concentrations in accordance with paragraph 35M of IFRS 7. The number of grades used to disclose the information in accordance with paragraph 35M of IFRS 7 shall be consistent with the number that the entity uses to report internally to key management personnel for internal credit risk management purposes. However, if information about credit risk rating grades is not available without undue cost or effort and an entity uses past due information to assess whether credit risk has increased significantly since initial recognition in accordance with paragraph 5.5.11 of IFRS 9, the entity shall provide an analysis by past due status for those financial assets.

<b>Consumer loan credit risk exposure by internal rating grades</b>				
20XX CU'000	<b>Consumer—credit card</b>		<b>Consumer—automotive</b>	
	<b>Gross carrying amount</b>		<b>Gross carrying amount</b>	
	<b>Lifetime</b>	<b>12-month</b>	<b>Lifetime</b>	<b>12-month</b>
Internal Grade 1–2	X	X	X	X
Internal Grade 3–4	X	X	X	X
Internal Grade 5–6	X	X	X	X
Internal Grade 7	X	X	X	X
<b>Total</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

<b>Corporate loan credit risk profile by external rating grades</b>				
20XX CU'000	<b>Corporate—equipment</b>		<b>Corporate—construction</b>	
	<b>Gross carrying amount</b>		<b>Gross carrying amount</b>	
	<b>Lifetime</b>	<b>12-month</b>	<b>Lifetime</b>	<b>12-month</b>
AAA-AA	X	X	X	X
A	X	X	X	X
BBB-BB	X	X	X	X
B	X	X	X	X
CCC-CC	X	X	X	X
C	X	X	X	X
D	X	X	X	X
<b>Total</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

<b>Corporate loan risk profile by probability of default</b>				
20XX CU'000	<b>Corporate—unsecured</b>		<b>Corporate—secured</b>	
	<b>Gross carrying amount</b>		<b>Gross carrying amount</b>	
	<b>Lifetime</b>	<b>12-month</b>	<b>Lifetime</b>	<b>12-month</b>
0.00 – 0.10	X	X	X	X
0.11 – 0.40	X	X	X	X
0.41 – 1.00	X	X	X	X
1.01 – 3.00	X	X	X	X
3.01 – 6.00	X	X	X	X
6.01 – 11.00	X	X	X	X
11.01 – 17.00	X	X	X	X
17.01 – 25.00	X	X	X	X
25.01 – 50.00	X	X	X	X
50.01+	X	X	X	X
<b>Total</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

IG20D Entity A manufactures cars and provides financing to both dealers and end customers. Entity A discloses its dealer financing and customer financing as separate classes of financial instruments and applies the simplified approach to its trade receivables so that the loss allowance is always measured at an amount equal to lifetime expected credit losses. The following table illustrates the use of a provision matrix as a risk profile disclosure under the simplified approach:

20XX	Trade receivables days past due				
CU'000					
<b>Dealer financing</b>	<b>Current</b>	<b>More than 30 days</b>	<b>More than 60 days</b>	<b>More than 90 days</b>	<b>Total</b>
Expected credit loss rate	0.10%	2%	5%	13%	
Estimated total gross carrying amount at default	CU20,777	CU1,416	CU673	CU235	CU23,101
Lifetime expected credit losses—dealer financing	CU21	CU28	CU34	CU31	CU114
<b>Customer financing</b>					
Expected credit loss rate	0.20%	3%	8%	15%	
Estimated total gross carrying amount at default	CU19,222	CU2,010	CU301	CU154	CU21,687
Lifetime expected credit losses—customer financing	CU38	CU60	CU24	CU23	CU145

IG23– [Deleted]

IG29

IGA16 A heading and paragraph are added as follows:

## Transition from IAS 39 to IFRS 9 (paragraphs 42K–42O)

IG40E The following illustration is an example of one possible way to meet the quantitative disclosure requirements in paragraphs 42K–42O of IFRS 7 at the date of initial application of IFRS 9. However, this illustration does not address all possible ways of applying the disclosure requirements of this IFRS.

### Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2018

Financial assets	(i)	(ii)	(iii)	(iv) = (i) + (ii) + (iii)	(v) = (iii)
	IAS 39 carrying amount 31 December 2017 (1)	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018	Retained earnings effect on 1 January 2018 (2), (3)
<b>Fair value through profit or loss</b>					
Additions:					
From available for sale (IAS 39)		(a)			(c)
From amortised cost (IAS 39) – required reclassification		(b)			
From amortised cost (IAS 39) – fair value option elected at 1 January 2018					
Subtractions:					
To amortised cost (IFRS 9)					
To fair value through other comprehensive income – debt instruments (IFRS 9)					
To fair value through other comprehensive income – equity instruments (IFRS 9)					
<b>Total change to fair value through profit or loss</b>					

continued...



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**Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2018**

<b>Financial assets</b>	<b>(i)</b>	<b>(ii)</b>	<b>(iii)</b>	<b>(iv) = (i) + (ii) + (iii)</b>	<b>(v) = (iii)</b>
	<b>IAS 39 carrying amount 31 December 2017 (1)</b>	<b>Reclassifications</b>	<b>Remeasurements</b>	<b>IFRS 9 carrying amount 1 January 2018</b>	<b>Retained earnings effect on 1 January 2018 (2), (3)</b>
<b>Fair value through other comprehensive income</b>					
Additions – debt instruments:					
From available for sale (IAS 39)					(g)
From amortised cost (IAS 39)					(h)
From fair value through profit or loss (IAS 39) – required reclassification based on classification criteria					(i)
From fair value through profit or loss (fair value option under IAS 39) – fair value option criteria not met at 1 January 2018					(j)
From fair value through profit or loss (IAS 39) – fair value option revoked at 1 January 2018 by choice					(k)
Additions – equity instruments:					
From available-for-sale (IAS 39)					
From fair value through profit or loss (fair value option under IAS 39)–fair value through other comprehensive income elected at 1 January 2018					
From cost (IAS 39)					

continued...

...continued

**Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2018**

<b>Financial assets</b>	<b>(i)</b>	<b>(ii)</b>	<b>(iii)</b>	<b>(iv) = (i) + (ii) + (iii)</b>	<b>(v) = (iii)</b>
	<b>IAS 39 carrying amount 31 December 2017 (1)</b>	<b>Reclassifications</b>	<b>Remeasurements</b>	<b>IFRS 9 carrying amount 1 January 2018</b>	<b>Retained earnings effect on 1 January 2018 (2), (3)</b>
Subtractions – debt and equity instruments:					
Available for sale (IAS 39) to fair value through profit or loss (IFRS 9) – required reclassification based on classification criteria					(d)
Available for sale (IAS 39) to fair value through profit or loss (IFRS 9) – fair value option elected at 1 January 2018					
Available for sale (IAS 39) to amortised cost (IFRS 9)					(e)
<b>Total change to fair value through other comprehensive income</b>					
<b>Amortised cost</b>					
Additions:					
From available for sale (IAS 39)					(f)
From fair value through profit or loss (IAS 39) – required reclassification					
From fair value through profit or loss (fair value option under IAS 39) – fair value option criteria not met at 1 January 2018					
From fair value through profit or loss (IAS 39) – fair value option revoked at 1 January 2018 by choice					

continued...

...continued

**Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2018**

<b>Financial assets</b>	<b>(i)</b>	<b>(ii)</b>	<b>(iii)</b>	<b>(iv) = (i) + (ii) + (iii)</b>	<b>(v) = (iii)</b>
	<b>IAS 39 carrying amount 31 December 2017 (1)</b>	<b>Reclassifications</b>	<b>Remeasurements</b>	<b>IFRS 9 carrying amount 1 January 2018</b>	<b>Retained earnings effect on 1 January 2018 (2), (3)</b>
Subtractions:					
To fair value through other comprehensive income (IFRS 9)					(l)
To fair value through profit or loss (IFRS 9) – required reclassification based on classification criteria					
To fair value through profit or loss (IFRS 9)—fair value option elected at 1 January 2018					
<b>Total change to amortised cost</b>					
<b>Total financial asset balances, reclassifications and remeasurements at 1 January 2018</b>	<b>(i)</b>	<b>Total (ii) = 0</b>	<b>(iii)</b>	<b>(iv) = (i) + (ii) + (iii)</b>	

- 1 Includes the effect of reclassifying hybrid instruments that were bifurcated under IAS 39 with host contract components of (a), which had associated embedded derivatives with a fair value of X at 31 December 2017, and (b), which had associated embedded derivatives with a fair value of Y at 31 December 2017.
- 2 Includes (c), (d), (e) and (f), which are amounts reclassified from other comprehensive income to retained earnings at the date of initial application.
- 3 Includes (g), (h), (i), (j), (k) and (l), which are amounts reclassified from retained earnings to accumulated other comprehensive income at the date of initial application.

**IAS 1 Presentation of Financial Statements**

IGA17 Paragraph IG2 is amended to read as follows and the heading above paragraph IG7 and paragraphs IG7–IG9 are deleted:

IG2 The guidance is in two sections. Paragraphs IG3–IG6 provide examples of the presentation of financial statements. Paragraphs IG7–IG9 have been deleted. Paragraphs IG10 and IG11 provide examples of capital disclosures.

IGA18 In the illustrative financial statements, references to ‘Available-for-sale financial assets’ are replaced by ‘Investments in equity instruments’. In the single statement of comprehensive income the reference to footnote (b) against the

deleted line item 'Available-for-sale financial assets' is deleted. The heading and table 'Disclosure of components of other comprehensive income' are amended to read as follows:

**Part I: Illustrative presentation of financial statements**

...

**XYZ Group**

**Disclosure of components of other comprehensive income**

[footnote omitted]

**Notes**

**Year ended 31 December 20X7**

**(in thousands of currency units)**

	20X7	20X6
<b>Other comprehensive income:</b>		
Exchange differences on translating foreign operations [footnote omitted]	5,334	10,667
Investments in equity instruments	(24,000)	26,667
Cash flow hedges:		
Gains (losses) arising during the year	(4,667)	(4,000)
Less: Reclassification adjustments for gains (losses) included in profit or loss	4,000	—
	(667)	(4,000)
Gains on property revaluation	933	3,367
Remeasurements of defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates	400	(700)
Other comprehensive income	(18,667)	37,334
Income tax relating to components of other comprehensive income [footnote omitted]	4,667	(9,334)
<b>Other comprehensive income for the year</b>	<b>(14,000)</b>	<b>28,000</b>

IGA19 The second paragraph in footnote (a) to the statement of changes in equity in the illustrative financial statements is amended to read as follows:

- (a) The amount included in the translation, investments in equity instruments and cash flow hedge reserves represents other comprehensive income for each component, net of tax and non-controlling interests, eg other comprehensive income related to investments in equity instruments for 20X6 of 16,000 is 26,667, less tax 6,667, less non-controlling interests 4,000.

IGA20 The second paragraph in footnote (b) to the statement of changes in equity in the illustrative financial statements is amended to read as follows:

- (b) The amount included in the translation, investments in equity instruments and cash flow hedge reserves represents other comprehensive income for each component, net of tax and non-controlling interests, eg other comprehensive income related to the translation of foreign operations for 20X7 of 3,200 is 5,334, less tax 1,334, less non-controlling interests 800.

### **IAS 32 *Financial Instruments: Presentation***

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IGA21 Paragraph IE1 is amended to read as follows:

- IE1 The following examples [footnote omitted] illustrate the application of paragraphs 15–27 and IFRS 9 to the accounting for contracts on an entity's own equity instruments (other than the financial instruments specified in paragraphs 16A and 16B or paragraphs 16C and 16D).

IGA22 In the example in paragraph IE5, the caption below the first journal entry is amended to read as follows:

*To record the obligation to deliver CU104,000 in one year at its present value of CU100,000 discounted using an appropriate interest rate (see IFRS 9, paragraph B5.1.1).*

### **IAS 37 *Provisions, Contingent Liabilities and Contingent Assets***

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IGA23 In Section C Example 9 is deleted.

### **IAS 39 *Financial Instruments: Recognition and Measurement***

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IGA24 Sections A–G are deleted.

### **IFRIC 16 *Hedges of a Net Investment in a Foreign Operation***

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IGA25 Paragraph IE5 is amended to read as follows:

- IE5 When the investment in Subsidiary C is disposed of, IFRS 9 requires the full €24 million gain on the hedging instrument to be reclassified to profit or loss. Using the step-by-step method, the amount to be reclassified to profit or loss in respect of the net investment in Subsidiary C would be only €11 million loss. Parent could adjust the foreign currency translation reserves of both Subsidiaries B and C by €13 million in order to match the amounts reclassified in respect of the hedging instrument and the net investment as would have been the case if the

direct method of consolidation had been used, if that was its accounting policy. An entity that had not hedged its net investment could make the same reclassification.