Australian Government
Department of Finance

AASB 9 *Financial Instruments* & AASB 1058 *Income of NFP Entities*

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Vincent Padgham

Director, Budget Estimates & Accounting

Australian Government
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- **AASB 9 *Financial Instruments***
  - **➲ New Impairment Model**

- **AASB 1058 *Income of Not-for-Profit Entities (NFPs)***

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AASB 9 *Financial Instruments*

New Impairment Model

New Impairment Model - AASB 9 vs AASB 139

AASB 9 Expected Credit Loss Model (ECL)	AASB 139 Incurred Loss Model
ECLs are recognised at each reporting period, even if no actual loss events have taken place	Delays the recognition of credit losses until there is objective evidence of impairment
In addition to past events & current conditions, **forward-looking** info without undue cost or effort is also considered	Only past events & current conditions are considered
One model which applies to all financial instruments	Different impairment models for different financial instruments

New Impairment Model - Scope

NEW!

Debt instruments measured at Amortised Cost or FVOCI

Financial guarantee contracts (not designated at FVTPL)

NEW!

Loan commitments (not measured at FVTPL)

Lease receivables (within the scope of AASB117 / AASB16)

NEW!

Contract assets (as defined in AASB15, not effective until 2019-20)

AASB 9 Transition - Impairment

General Principle

- Impairment requirements are to be applied retrospectively

Requirement

- Entities shall determine the credit risk (CR) at the date the instrument was initially recognised, and compare that to the CR at DIA of AASB 9

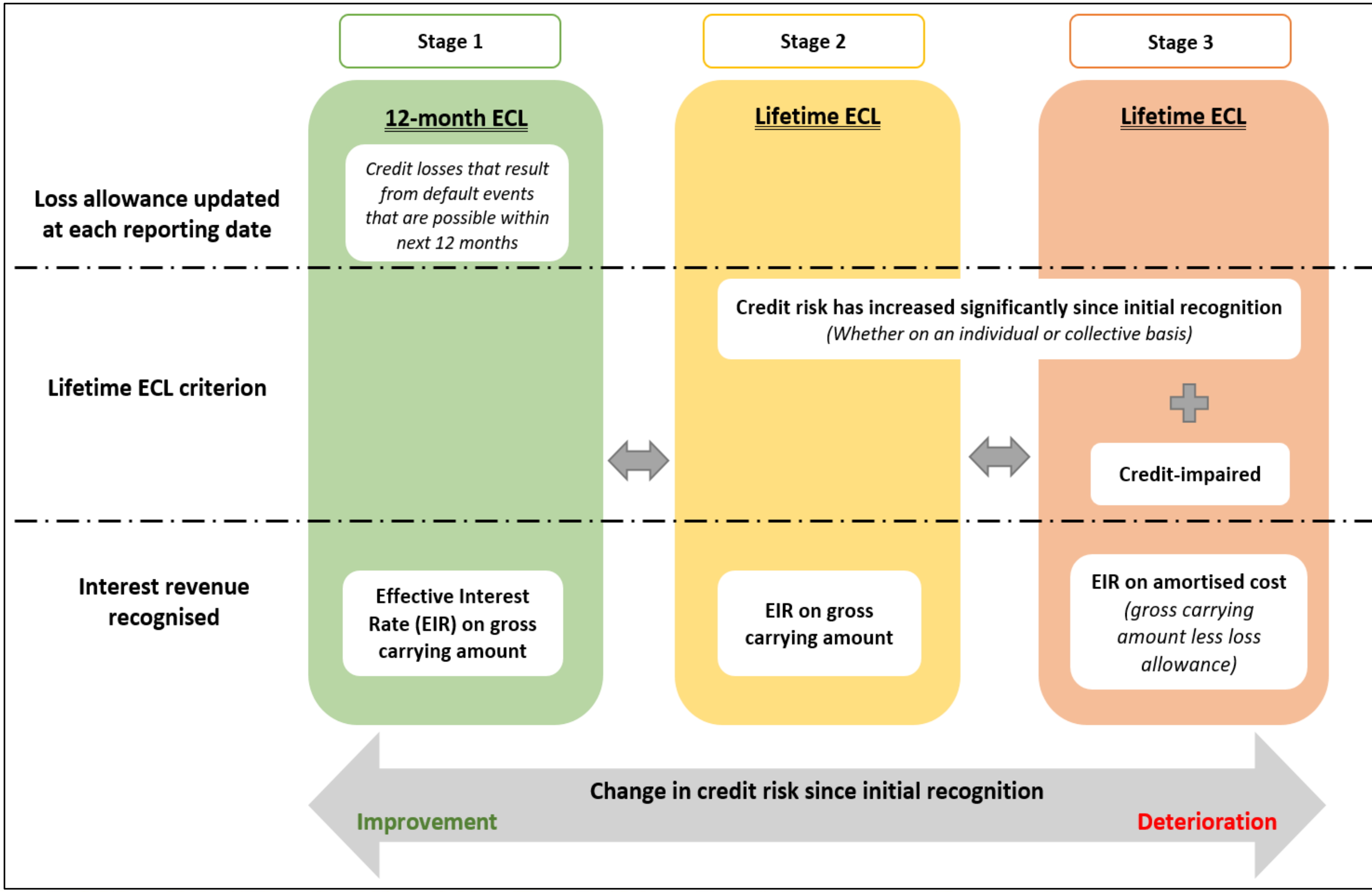
Exemption

- An entity shall recognise lifetime ECL where it will incur undue cost or effort in determining the change in credit risk since initial recognition

Approach

- General Approach – 3 Stage Model
- Simplified Approach – Lifetime ECL Model
- Credit adjusted Approach *(largely consistent with AG5 of AASB 139)*

General Approach - 3 Stage Model



General Approach - 3 Stage Model

Determining Significant Increases in Credit Risk

The focus is on the **changes in the risk of a default**, not the changes in the amount of ECL.

*For example, for highly collateralised financial assets such as real estate backed loans, when a borrower expected to be affected by the downturn in its local economy with a consequent increase in credit risk, that loan would move from Stage 1 to **Stage 2**, even though the actual loss suffered may be small because the lender can recover most of the amount due by selling the collateral.*

AASB 9 (B5.5.17) sets out guidance to assist entities in assessing changes in credit risk.

General Approach - 3 Stage Model

There are 3 key parameters to measure expected loss

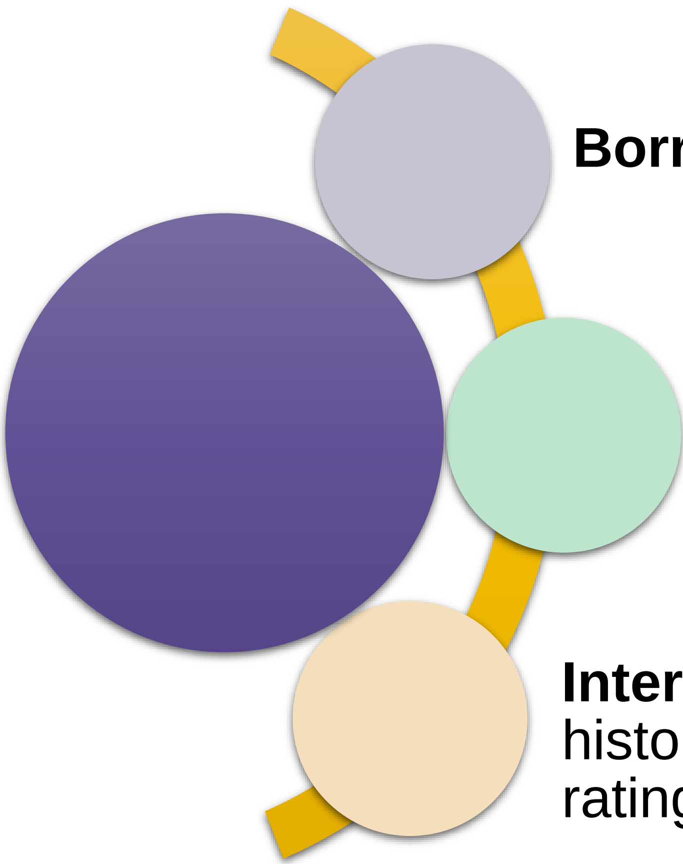
- Probability of default of a borrower
- Usually measured over a 12-month horizon

- Loss after the event of a default
- Measured as % of exposure

- Credit amount at time of default

General Approach - 3 Stage Model

Various sources of data need to be considered in estimating ECL



Borrower specific factors

Macroeconomic conditions

Internal & external info (such as internal historical credit loss experience, internal rating, external reports & statistics)

Simplified Approach - Lifetime ECL Model

Apply for trade receivables, lease receivables & contract assets that ***DO NOT*** *contain a significant financing component.*

Trade Receivables, Lease Receivables & Contract Assets → **Simplified Approach** **Lifetime ECL** = **Loss Allowance**

For **short-term receivables**
(maturities<12mths)
both general & simplified approaches would lead to the same result

Credit Adjusted Approach

This approach applies to the credit impaired assets at initial recognition (e.g. loans acquired at a deep discount due to their credit risk).

The accounting for purchased or originated credit-impaired assets is largely consistent with AG5 of AASB 139.

Illustrative Example – Trade Receivables

- Entity A has a portfolio of trade receivables of $30 million at 30/06/2014;
- The debtors are consists of a large number of small clients;
- Entity uses a provision matrix to determine the ECLs for the portfolio;
- The provision matrix is based on its historical observed default rates *(updated at every reporting date)*, adjusted for forward looking estimates.

Entity A - Provision Matrix as at 30/06/2014			
	Expected Default Rates (A)	**Gross Carrying Amount** (B)	**Credit Loss Allowance** (A)×(B)
Current	0.3%	$15,000,000	$45,000
1-30 days past due	1.6%	$7,500,000	$120,000
31-60 days past due	3.6%	$4,000,000	$144,000
61-90 days past due	6.6%	$2,500,000	$165,000
> 90 days past due	10.6%	$1,000,000	$106,000
		$30,000,000	**$580,000**

Illustrative Example – Trade Receivables (Con'd)

At 30/06/2015, entity A revises its forward looking estimates, which include a deterioration in general economic condition. It has a portfolio of trade receivables of $34 million in 2015.

Entity A - Provision Matrix as at 30/06/2015			
	Expected Default Rates (A)	Gross Carrying Amount (B)	Credit Loss Allowance (A)×(B)
Current	0.5%	$16,000,000	$80,000
1-30 days past due	1.8%	$8,000,000	$144,000
31-60 days past due	3.8%	$5,000,000	$190,000
61-90 days past due	7.0%	$3,500,000	$245,000
> 90 days past due	11.0%	$1,500,000	$165,000
		$34,000,000	$824,000

Illustrative Example – Trade Receivables (Con'd)

The credit loss allowance is increased by **$244,000** from **$580,000** at 30/06/2014 to **$824,000** as at 30/06/2015.

The journal entry at 30/06/2015 would be:

	DR	CR
Expected credit losses	244,000	
Credit loss allowance		244,000

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AASB 1058 *Income of NFP Entities*

Effective in 2019-20 FY

AASB 1058 *Income of NFPs (Con'd)*
Relevant Standards Issued in Dec 2016

AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for NFPs*

- Defers AASB 15 for NFPs to 2019-20 FY

AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for NFPs*

- Adds NFP guidance to AASB 9 and AASB 15

AASB 1058 *Income of NFPs (Con’d)*

Reasons for Issuing AASB 1058

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- Income recognition is premature
- Does not reflect the substance of the transaction
- It’s difficult to apply the reciprocal/non-reciprocal distinction in practice
- What’s the accounting for leases on below-market terms (i.e. Peppercorn Leases) under AASB 16 *Leases*?

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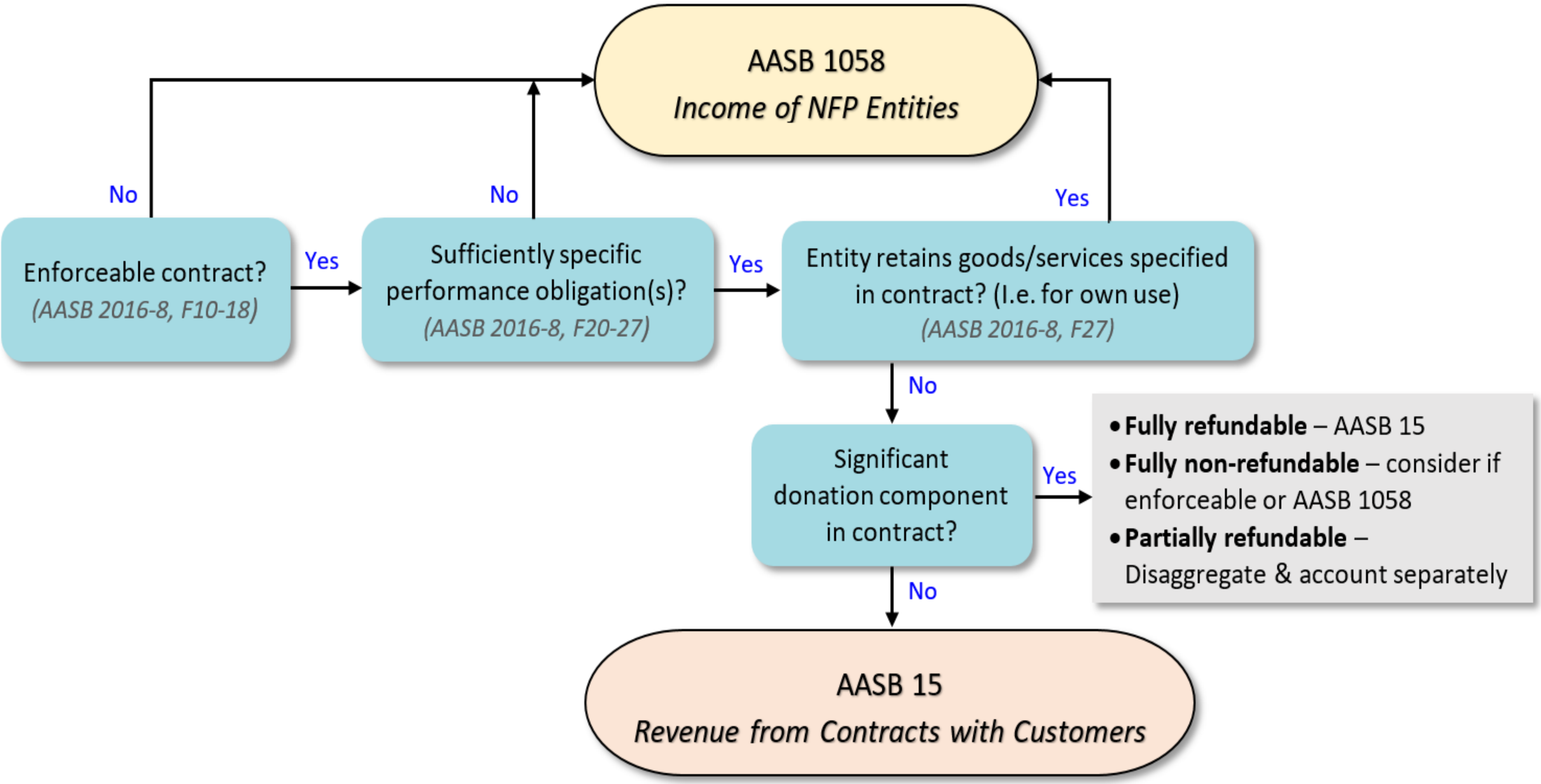
- AASB 1058 requires NFPs must first determine whether a transaction falls within one of the two standards or in both by identifying:
  - *Contract with a customers; or*
  - *Genuine ‘donation’ or volunteer service.*
- AASB 1058 applies only to NFPs, and only where AASB 15 doesn’t apply

AASB 1058 *Income of NFPs (Con'd)*
Peppercorn Leases under AASB 16

Income = FV Asset – Consideration Paid – Related Amounts Recognised

- NFP modifications to AASB 16
- Lease right-to-use asset measured at fair value
- Lease Asset *(FV)* ≠ Lease Liability *(present value of payments)*
- Difference recognised in accordance with AASB 1058

AASB 1058 *Income of NFPs (Con'd)*
Determining the appropriate standard to apply



AASB 1058 *Income of NFPs (Con'd)*

Transition Requirements

- Modified retrospective application - restatement of comparatives is not allowed
- Assess fair value of significantly below-market leases at date of initial application
- Income recognised under AASB 1004 is not affected
- Assets acquired for more than no or nominal consideration but significantly less than fair value – accounting grandfathered

AASB 1058 *Income of NFPs (Con'd)*

Disclosures

Income Categories

- Income shall be disaggregated into categories reflecting significant income streams

Other Qualitative Disclosures

- Volunteer services including those not recognised
- Inventories held but not recognised as assets during the period

Statutory Receivables

•Statutory receivables treated as if they were financial instruments under AASB 9 *(AASB 2016-8 para 4, amendments to AASB 9, AUS 2.1.1)*

Restrictions

- information about any externally imposed restrictions that limit or direct the purpose for which resources may be used.

Compliance with Parliamentary Appropriations & Expenditure


QUESTIONS?
CONCERNS?
COMMENTS?