Australian Government
Department of Finance

AASB 9 Financial Instruments

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Australian Government
Department of Finance

Highlights

- AASB 9 *Financial Instruments* is effective from **1 January 2018**
- Initial application for public sectors:
  - Budget reporting – Annual Estimates & Monthly Profile for 2018-19 *(in May 2018)*
  - Actuals reporting –
    - Monthly Actuals from July 2018 reporting month *(in August 2018)*
    - Annual Actuals for 2018-19
- Main impacted on:
  - Loans
  - General provision for receivables (excluding statutory receivables)

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Key differences between AASB 139 and AASB 9

- Changes in classification and measurement
- Moving to a predictive impairment model
- Opportunities to apply the more relaxed hedging rules

Classification of Financial Assets

Classifications under AASB 139

- Held to maturity
- Loans and receivables
- Fair Value through Profit & Loss (PVTPL)
- Available for sale

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Classifications under AASB 9:

- Amortised Cost
- Fair Value through Profit & Loss (FVTPL)
- Fair Value reported in Other Comprehensive Income (FVOCI)

The classification is dependent on two tests:

- Contractual cash flow test (named **SPPI** as Solely Payments of Principal and Interest)
- Business model assessment

Amortised Cost

Different rules for the measurement, restricted to situations where:

- Asset held for cash flows
- Returns are only interest and principal
- Now include expected credit loss

Fair Value through Profit & Loss (FVTPL)

- Used to prevent accounting mismatch
- All movements through Profit & Loss
- No expected credit loss
- Current examples, HELP and student loans unlikely to change

Fair Value through Other Comprehensive Income (FVOCI)

- Only available for certain debt instruments and equity investments that are <u>not held for trading</u>
- Where debt instruments are held to achieve a particular objective by both collecting cash flows and selling financial assets
- All equity investments must be fair valued
- Equity investments that are not held for trading, entities can make an irrevocable election at initial recognition to classify as FVOCI (e.g. existing Administered Investments –NBN Co Limited, Australia Post)

New Impairment Model
Headlines

- Expected loss model means impairment generally recognised for performing assets
- Receivables will effectively have an impairment provision booked on initial recognition
- Provisions for impairment expected to be larger and more volatile

New Impairment Model

Scope

NEW!

Financial Assets (including trade receivable)
- Debt instruments measured at amortised cost or FVOCI

Financial guarantee contracts (not measured at FVTPL)

NEW!

Loan commitments (not measured at FVTPL)

Lease receivables

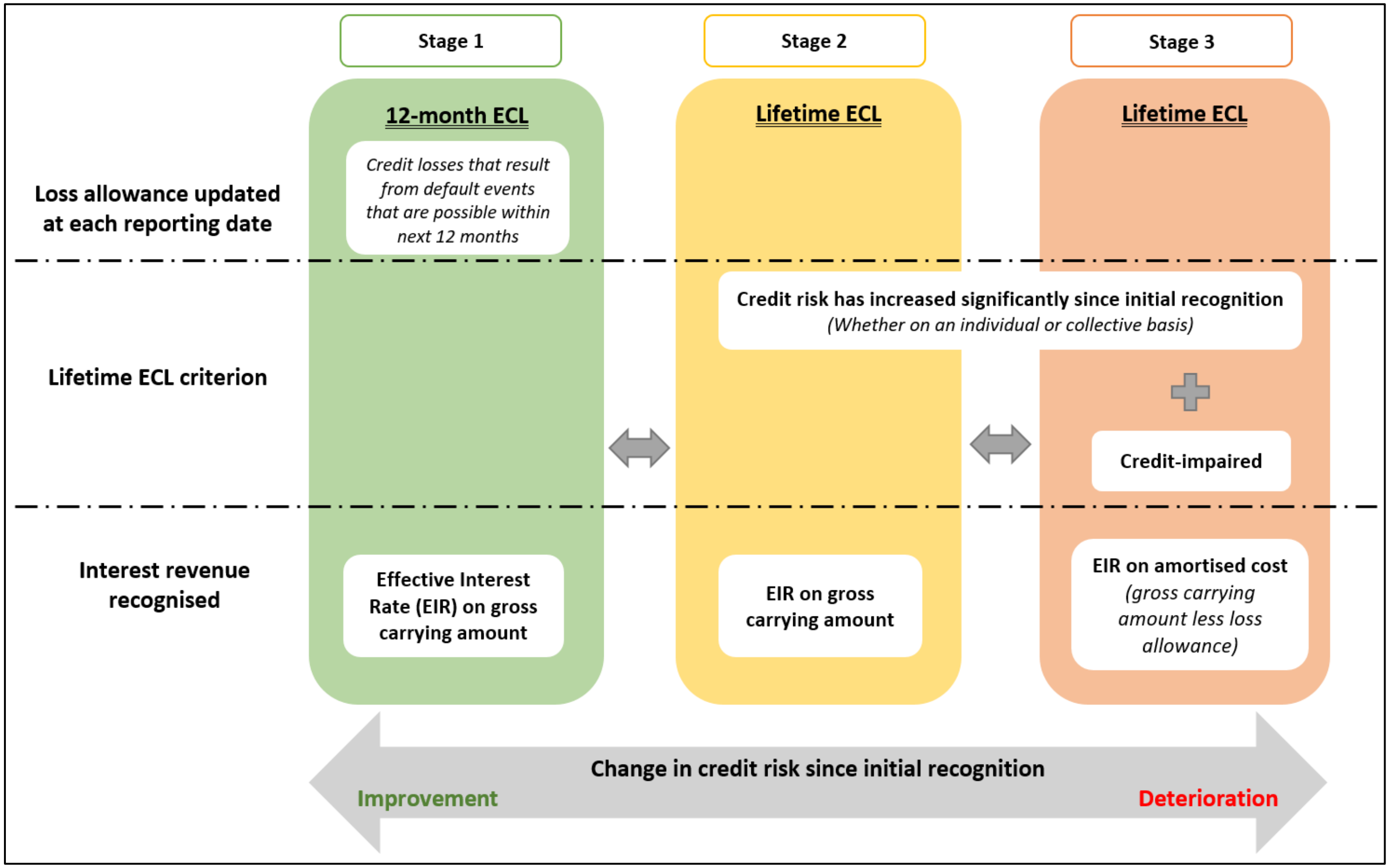
NEW!

Contract Assets (AASB 15)

New Impairment Model

General Approach (Three stage model)

Will be applied to most loans and debt securities



New Impairment Model

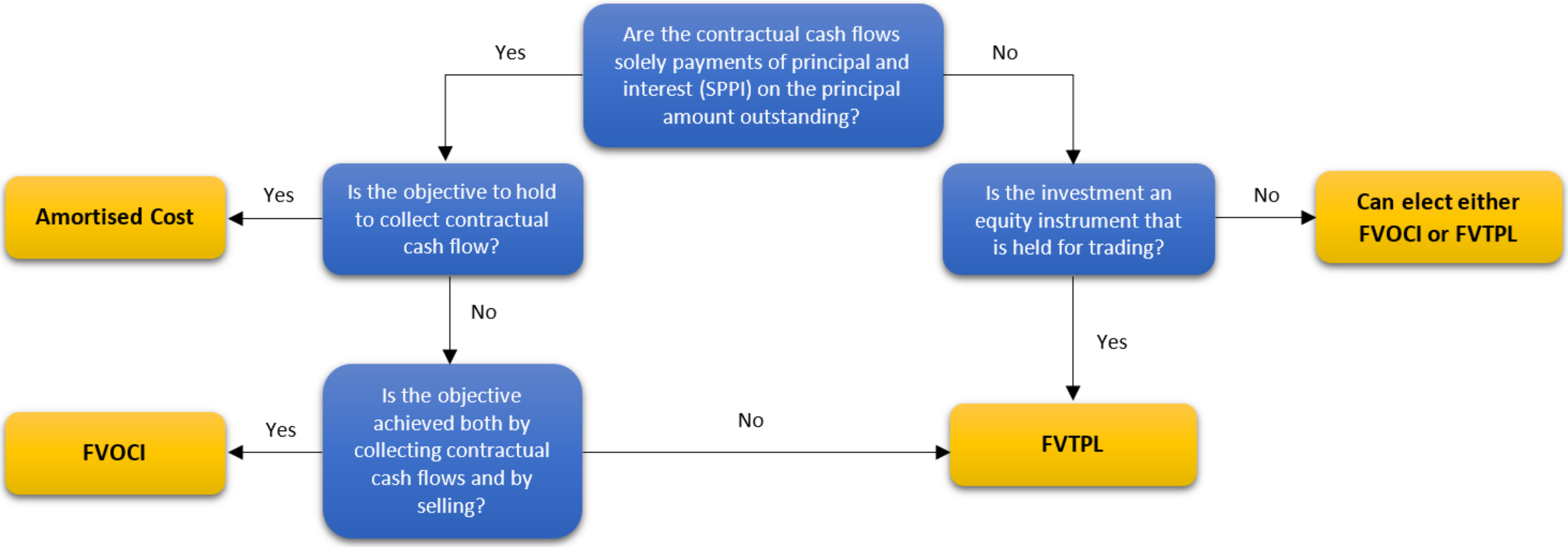
Simplified Approach (Lifetime Model)

Will be applied to most trade receivables without significant financing component

- Entities will not wait until the receivable is past due before recognising a provision
- Loss allowance always equal to lifetime ECL
- For short-term (maturities of less than 12 months) receivables, both approaches would lead to the same result

Classification of Financial Assets

Contractual Cash Flow Test



Classification of Financial Assets (cont'd)

Business Model Assessment

(Only reclassify if there is a change in business model)

Business Models	Key Features	Measure at
Held-to-collect	• Business holds assets to collect contractual cash flows • Sales are incidental to the objective	**Amortised Cost**
Held both to collect and for sale	Both collecting contractual cash flows and sales are integral to achieving the objective of the business model.	**FVOCI**
Others	Assets are neither held-to-collect nor held to collect and for sale	**FVTPL**

Classification of Financial Assets (cont'd)

Impact of Classification on Public Sector

Category	Initial Recognition	Subsequent Measurement	Impairment required?	Examples
Amortised Cost	Fair Value + transaction costs	Amortised Cost	Yes	• Advances/loans (e.g. Loans to state and territory government) • Receivables (e.g. Grants receivable, Provn for Doubtful Debts - Goods and Services Receivable) • Accrued sales of goods and services revenue
FVTPL	Fair Value	Fair Value through P&L	No	• Student Loans (e.g. HELP & SFSS) • Shares held for trading • Derivatives
FVOCI – debt	Fair Value + transaction costs	• P&L: Interest income, impairment losses/reversals and foreign exchange revaluation • OCI: Other gains and losses • Gains and losses reclassified to P&L on de-recognition	Yes	Government debt securities held for liquidity purposes (e.g. Reserve Bank Outright Holdings of Australian Government Securities – Treasury Bond)
FVOCI – equity	Fair Value + transaction costs	• P&L: Dividends • OCI: Other gains and losses • No reclassification of gains and losses from OCI	No	• Shares not held for trading (e.g. funding to deliver the Inland Rail project as an Equity Investment)

Classification of Financial Assets (cont'd)

Impact of change in measurement category

From AASB 139	To AASB 9	Impact
Amortised cost	FVTPL or FVOCI	• Measure FV at date of initial application (DIA)
FVTPL FVOCI	Amortised cost	• Recalculate gross carrying amount by retrospectively applying effective interest rate (EIR) method. • If impracticable, FV at DIA = new gross carrying amount.
FVTPL	FVOCI	• No change in gross carrying amount • Retrospectively apply the EIR method • If impracticable, calculate EIR on FV at DIA
FVOCI	FVTPL	• No change at DIA

Any change in carrying amount recognised in opening retained earnings

Classification of Financial Liabilities

Reclassification of financial liabilities is not permitted

No change from AASB 139	New requirement in AASB 9
• Financial liabilities held for trading or derivatives – at FVTPL (e.g. Treasury Bonds) • Continue to separate any embedded derivatives • Other financial liabilities – at amortised cost *(Fair value option available to reduce or avoid an accounting mismatch)*	• For all financial liabilities designated at FVTPL (own credit), <u>fair value change attributable to changes in own credit risk must be presented in</u> <u>**OCI**</u>**,** unless doing so creates or enlarges an accounting mismatch


QUESTIONS?
COMMENTS?
CONCERNS?