AASB 9: Financial Instruments Transition

Tuesday 20 June 2017
Your facilitators are

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Introduction
The story so far...

AASB 9 (2009)
• Classification and measurement of financial assets

AASB 9 (2010)
• Classification and measurement of financial liabilities and de-recognition

AASB 9 (2013)
• Hedge accounting

AASB 9 (2014)
• Impairment of financial assets and limited amendments to classification and measurement
Where are we at?

Applicable years beginning on or after 1 Jan 2018

1 Jul 2017
1 Oct 2017

30 Jun 2018
30 Sept 2018

30 Jun 2019
30 Sept 2019

Beginning of comparative period

Date of initial application

End of first reporting period

* Not-for-profit entities adoption deferred to 1 January 2019 for concurrent application of AASB 1058 Income of Not-for-Profit Entities
Classification and measurement
Classification of financial assets

Are the contractual cash flows solely payments of principal and interest on the principal amount outstanding?

- Yes: Amortised cost
- No: Is the objective to hold to collect contractual cash flows?

Is the objective to hold to collect contractual cash flows?

- Yes: Amortised cost
- No: Is the objective achieved both by collecting contractual cash flows and by selling?

Is the objective achieved both by collecting contractual cash flows and by selling?

- Yes: FVOCI
- No: Can elect either FVOCI or FVTPL

Can elect either FVOCI or FVTPL

- Yes: FVOCI
- No: FVTPL

Different rules for amortised cost measurement

Need to assess the contractual cash flows of the instrument in its entirety

FVOCI only available for certain debt instruments and equity investments that are not held for trading
The SPPI criterion example

An entity has a loan receivable with interest payments based on BBSW + a margin reflecting the borrower’s credit risk. The loan also entitles the entity to a 0.1% share of the borrower’s revenue in excess of a pre-determined threshold.

Do the cash flows consist only of principal and interest?

Is it consistent with a basic lending arrangement?

<table>
<thead>
<tr>
<th>Principal</th>
<th>Fair value of asset on initial recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>Consideration for:</td>
</tr>
<tr>
<td></td>
<td>• Time value of money;</td>
</tr>
<tr>
<td></td>
<td>• Credit risk associated with the principal amount;</td>
</tr>
<tr>
<td></td>
<td>Can also include consideration for:</td>
</tr>
<tr>
<td></td>
<td>• Other basic lending risks</td>
</tr>
<tr>
<td></td>
<td>• liquidity risk;</td>
</tr>
<tr>
<td></td>
<td>• other associated costs (such as administrative costs).</td>
</tr>
<tr>
<td></td>
<td>• A profit margin</td>
</tr>
</tbody>
</table>
## Impact of classification

<table>
<thead>
<tr>
<th>Category</th>
<th>Initial recognition</th>
<th>Subsequent measurement</th>
<th>Impairment requirements apply?</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortised cost</td>
<td>Fair value plus transaction costs</td>
<td>Amortised cost</td>
<td>Yes</td>
<td>Trade receivables Loans</td>
</tr>
<tr>
<td>FVTPL</td>
<td>Fair value</td>
<td>Fair value through P&amp;L</td>
<td>No</td>
<td>Shares held for trading</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Puttable units Derivatives</td>
</tr>
<tr>
<td>FVOCI - debt</td>
<td>Fair value plus transaction costs</td>
<td>• P&amp;L: Interest, impairment and FX</td>
<td>Yes</td>
<td>Government debt securities held for liquidity purposes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• OCI: Other gains and losses</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Gains and losses reclassified to P&amp;L on de-recognition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FVOCI - equity</td>
<td>Fair value plus transaction costs</td>
<td>• P&amp;L: Dividends</td>
<td>No</td>
<td>Shares not held for trading</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• OCI: Other gains and losses</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• No reclassification of gains and losses from OCI</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Additional considerations

Prepayment options
- Exception permits amortised cost for certain options
- IASB ED for prepayment with negative compensation

Specific rules
- Contractually linked instruments
- Non-recourse loans
- Modified time value

Contracts to buy or sell non-financial items
- Certain executory contracts can be designated at FVTPL
- Designation made at inception and is irrevocable
## Business model assessment

Assessed at a level at which groups of assets are managed, e.g. a portfolio

<table>
<thead>
<tr>
<th>Business Models</th>
<th>Key features</th>
<th>Measure at</th>
</tr>
</thead>
<tbody>
<tr>
<td>Held-to-collect</td>
<td>• Business holds assets to collect contractual cash flows</td>
<td>Amortised cost</td>
</tr>
<tr>
<td></td>
<td>• Sales are incidental to the objective</td>
<td></td>
</tr>
<tr>
<td>Held both to collect and for sale</td>
<td>• Both collecting contractual cash flows and sales are integral to achieving the objective of the business model</td>
<td>FVOCI</td>
</tr>
<tr>
<td>Others</td>
<td>• Assets are neither held-to-collect nor held to collect and for sale</td>
<td>FVTPL</td>
</tr>
</tbody>
</table>

Reclassify only if there is a change in business model
Business model assessment

Finance company loan portfolios

Originating entity

• Originates loans with customers
• Accumulates loans for sale to SPV

Special Purpose Vehicle

• Finances the purchase of loans through issue of notes to investors
Q: What is the appropriate business model for receivables from Entity B, C and D?
Classification of financial liabilities

### Measurement categories

- Financial liabilities held for trading or derivatives – at FVTPL
- 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

- Fair value change attributable to changes in own credit risk must be presented in OCI unless doing so creates or enlarges an accounting mismatch.

### Reclassification of financial liabilities is not permitted

No change from AASB 139

New requirement
Transition
Principles of transition

Retrospective application required with exceptions

Does not apply to items that were derecognised at the DIA

Choice to restate comparatives if possible without hindsight
Summary of transitional considerations

1. Assess nature of cash flows for financial assets
2. Identify business models for financial assets
3. Any FVOCI designations for eligible equity investments
4. Assess FVTPL designations
Pertinent dates for transition assessments

At initial recognition: 1 July 2017

Comparative period:
- SPPI assessment
- Effective interest rate calculation

Date of initial application: 1 July 2018

First year: 30 June 2019
- Business model assessment
- FVOCI elections for equity investments not held for trading
- FVTPL designations and revocations
Transition - assessment at initial recognition

For interest-bearing assets

SPPI assessment

- Based on facts and circumstances existing at initial recognition of the financial asset
- Application of available impracticability exceptions would mean more restrictive application of SPPI criterion
Transition - assessment at DIA

Business model assessment

• Based on facts and circumstances at the DIA
• Not required to consider business models that may have applied in previous periods
• Consider accounting policy in relation to debt factoring and/or securitisation arrangements

FVOCI designations for equity investments

• All equity investments must be fair valued
• May elect to designate equity investments that are not held for trading as FVOCI
• Determine whether an asset is held for trading as if it were acquired on the DIA
Transition - assessment at DIA

**FVTPL designations**

- Only if designation eliminates or significantly reduces an accounting mismatch
- Reassess any prior FVTPL designations to ensure compliance with AASB 9 requirements
- Can choose not to continue with any existing FVTPL designations
- Entities can choose to apply to new or previously undesignated instruments where the criteria is met
- Assess whether presenting the effects of changes in a financial liability’s credit risk in OCI would create or enlarge an accounting mismatch in P&L as at DIA
- Own use contracts resulting in an accounting mismatch. Must designate all similar contracts
Transition - assessment at DIA

Unquoted equity investments previously at cost

• Difference between the fair value and the previous carrying amount = Adjustment to the opening retained earnings at the DIA.
• No retrospective application permitted.
“How would an organisation retrospectively apply the standard given that it is only applicable to instruments that exist at the DIA and it is at this date that the various elections and designations need to be made?”
Items already derecognised at date of initial application

Date of initial application
1 July 2017
1 July 2018
30 June 2019

Prior periods
Equity A $100
Equity B $80

Comparative period
Impairment loss of $30
Further loss of $10

First year
Disposal of equity A $80
Disposal of equity B
P/L impact of $40

Restating comparatives
Equity A
Transfer $30 from RE to FVOCI reserve
Restate P/L by $10
Adjust FVOCI reserve
Recognise $20 gain through OCI

Equity B
No adjustment
Does not exist at DIA

Not restating comparatives
Equity A
Transfer $40 from RE to FVOCI reserve
No gain or loss on disposal.
Recognise $20 gain through OCI
Restating comparatives

- Restate carrying amount by 3
- Recognise provision for impairment
- Recognise interest income of 8
- Recognise provision for impairment

Not restating comparatives

- Decrease carrying amount by 2
- Recognise provision for impairment

Example instrument:
8% interest only loan on a principal of $100.
Classified as:
- AFS under AASB 139, and
- Amortised cost under AASB 9.
## Practical expedients (PEs)

<table>
<thead>
<tr>
<th>Investments in hybrid contracts</th>
<th>If restating comparatives, PE for fair value in comparative year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets with modified time value</td>
<td>If impracticable to assess at initial recognition, SPPI assessment is made without taking into account specific related exemption</td>
</tr>
<tr>
<td>Financial assets with prepayment features</td>
<td></td>
</tr>
<tr>
<td>Retrospective application of EIR method</td>
<td>If impracticable to apply EIR method retrospectively then the fair value at end of comparative period = gross carrying amount</td>
</tr>
</tbody>
</table>
Impact of change in measurement category

<table>
<thead>
<tr>
<th>From AASB 139</th>
<th>To AASB 9</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortised cost</td>
<td>FVTPL or FVOCI</td>
<td>• Measure FV at DIA.</td>
</tr>
<tr>
<td>FVTPL</td>
<td>Amortised cost</td>
<td>• Recalculate gross carrying amount by retrospectively applying EIR method.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• If impracticable, FV at DIA = new gross carrying amount.</td>
</tr>
<tr>
<td>FVOCI</td>
<td>FVTPL</td>
<td>• No change in gross carrying amount.</td>
</tr>
<tr>
<td></td>
<td>FVOCI</td>
<td>• Retrospectively apply the EIR method.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• If impracticable, calculate EIR based on FV at DIA.</td>
</tr>
<tr>
<td>FVOCI</td>
<td>FVTPL</td>
<td>• No change at DIA.</td>
</tr>
</tbody>
</table>

Any change in carrying amount recognised in opening retained earnings

Table above assumes comparatives will not be restated.
If you are restating the relevant date becomes start of comparative period, rather than DIA.
Impairment
Headlines of the new impairment model

- 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
Scope

Financial assets (including trade receivables)
- Debt instruments measured at amortised cost or FVOCI

Financial guarantee contracts
- Only those that are in scope of AASB 9 and not measured at FVTPL

Loan commitments
- Even if otherwise outside the scope of AASB 9

Lease receivables

Contract Assets (AASB 15)
Trade and lease receivables and contract assets

Trade receivables and contract assets **without** a significant financing component

Trade receivables and contract assets **with** a significant financing component

Lease receivables

All other financial instruments in-scope of impairment requirements

Policy election to apply

### Simplified approach

Loss allowance always equal to lifetime expected credit losses

For short-term receivables, both approaches would lead to the same result

### General approach

12 months expected credit losses

Transfer if the credit risk on the financial asset has increased significantly since initial recognition

Move Back if transfer condition above is no longer met

Lifetime expected credit losses
Key concepts

12-month expected loss
The amount an entity expects to lose due to default events that are possible within 12 months of the reporting date.

Lifetime expected loss
The amount an entity expects to lose due to default events that are possible over the life of the financial instrument.

General approach

Transfer
if the credit risk on the financial asset has increased significantly since initial recognition

Move Back
if transfer condition above is no longer met

Exception for purchased or originated credit impaired assets
**Implementation issues**

### Areas of significant judgment

#### Significant increase in credit risk
- Need to track relative changes in credit risk since initial recognition
- Not defined in the standard however rebuttable presumption that no later than 30 days past due

#### Measurement of expected losses
- No methodology specified for calculation thus judgement involved
- Must incorporate reasonable and supportable forward looking information
- Specific rules apply to revolving facilities

#### Default
- Not defined but needs to be consistent with risk management processes
- Rebuttable presumption that no later than 90 days past due

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**Specialist involvement is often required**
Scenario
Manufacturer M operates only in one geographical location, and has a portfolio of short term trade receivables with similar risk characteristics of $30 million on 30 June 201X.

### Calculation of impairment using the provision matrix:

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Gross carrying amount (A)</th>
<th>Lifetime expected credit loss rate (B)</th>
<th>Lifetime expected credit loss allowance (A x B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>$15,000,000</td>
<td>0.3%</td>
<td>$45,000</td>
</tr>
<tr>
<td>1–30 days past due</td>
<td>$7,500,000</td>
<td>1.6%</td>
<td>$120,000</td>
</tr>
<tr>
<td>31–60 days past due</td>
<td>$4,000,000</td>
<td>3.6%</td>
<td>$144,000</td>
</tr>
<tr>
<td>61–90 days past due</td>
<td>$2,500,000</td>
<td>6.6%</td>
<td>$165,000</td>
</tr>
<tr>
<td>&gt;90 days past due</td>
<td>$1,000,000</td>
<td>10.6%</td>
<td>$106,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$30,000,000</strong></td>
<td><strong>$580,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
Transition

General approach: assess whether there has been a significant increase in credit risk between initial recognition and the DIA

- No = 12-month ECL
- Yes = Lifetime ECL

If unable to determine whether there has been a significant increase in credit risk must book lifetime ECL until the asset is derecognised
Modifications of terms
Modification of terms

What is the accounting consequence under AASB 9 when the terms and conditions of a financial asset or liability are modified?

Substantial modification

• De-recognise existing asset or liability
• Recognise new asset or liability and calculate a new effective interest rate
• Recognise any gain or loss in P&L
• Previous costs and fees recognised immediately in P&L

Non-substantial modification

• Re-calculate the gross carrying amount by discounting the modified cash flows using the original effective interest rate
• Recognise any gain or loss in P&L
• Amortise costs and fees over the remaining life
### Modification of financial assets: impairment impacts

<table>
<thead>
<tr>
<th>Type of modification</th>
<th>Impact of modification</th>
<th>Reason for modification</th>
<th>Impact on impairment provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Substantial</td>
<td>De-recognise old asset, Recognise new asset, Record any gain or loss</td>
<td>Was modification due to financial difficulty of the borrower?</td>
<td></td>
</tr>
</tbody>
</table>
New asset is credit impaired on initial recognition. Provision = change in lifetime ECLs  
Reverts to 12-month ECL |
| Non-substantial      | Recalculate gross carrying amount, Record any gain or loss, Amortise costs or fees over remaining life | Was modification due to financial difficulty of the borrower? |  
Yes  
Recollect lifetime ECLs. Consider if asset is credit impaired  
No  
No impact on impairment provision |
Modification of terms: transition impacts

Currently, no immediate gain or loss under AASB 139 if the modification is not substantial

AASB 9 requires retrospective application

Apply requirements of AASB 9 to prior period modification.
Reflect any gain or loss in opening retained earnings.

- 1 July 2017
  - Initial recognition of loan payable.

- 1 July 2018
  - Non-substantial modification. No immediate gain or loss under AASB 139.
  - Loan still outstanding at date of transition to AASB 9

- 30 June 2019
  - Overview of prior periods, comparative period, and first year

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Hedge accounting
### Reducing Volatility

- Aligns hedge accounting with risk management
  - Hedge accounting can be applied to a broader range of hedging objectives
  - More allowable hedged risks and hedging instruments (i.e. aggregated/synthetic exposures)
- Simplified effectiveness testing
  - 80-125% bright line test removed
- Cost of hedging concept introduced
  - Will reduce volatility for entities with options

**Documentation is still crucial**

**Complexity still exists**
Hedge accounting

Entities can make an accounting policy choice to either:

- Continue to apply AASB 139
- Adopt AASB 9 requirements

In either case entities must apply the new AASB 7 hedge accounting disclosure requirements.
Hedge accounting: Transition principles

General Principle

Time value of options

Forward element and Currency basis

Cost of hedging principle

Options

Forward contracts

Cross currency swaps

Prior Period

IAS 39

Retrospectively

Retrospectively (Choice)

Reporting Period

IFRS 9

IFRS 9

IFRS 9
Hedge accounting: Summary Transition decision tree

Does the entity elect to continue applying the AASB 139 hedge accounting requirements?

Yes → Continue applying requirements of AASB 139.
No → At the date of initial application (DIA) do the existing hedge relationships qualify under AASB 9?

Yes → Has the entity designated the intrinsic value of an option as a hedging instrument?
No → Discontinue hedge accounting. Establish new AASB 9 compliant hedge relationship.

Yes → Must retrospectively apply the cost of hedging approach to options. Choice for forwards and currency basis.
No → Apply requirements of AASB 9 prospectively.

For everything else
Transitional disclosure - financial statement lines affected

### VI. Effect of adjustments arising from application of IFRS 9 hedge accounting requirements

#### Hedge accounting

Retrospective application of the costs of hedging approach has had the following effects on the amounts presented for 2015.

**Consolidated statement of financial position – 31 December 2015**

<table>
<thead>
<tr>
<th>Nature of change</th>
<th>Adjustment - each financial statement line (if applicable)</th>
<th>Adjustment - AASB 133 Earnings per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserves</td>
<td>462 (26)</td>
<td>-</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>13,873 (26)</td>
<td>13,847</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>35,494</td>
<td>35,494</td>
</tr>
<tr>
<td><strong>Consolidated statement of profit or loss and other comprehensive income – For the year ended 31 December 2015</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Profit or loss</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>96,638</td>
<td>96,629</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(56,186)</td>
<td>(56,186)</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(1,827)</td>
<td>(1,827)</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(2,517)</td>
<td>(2,517)</td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td>6,103 (7)</td>
<td>6,096</td>
</tr>
<tr>
<td><strong>Other comprehensive income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items that are or may be reclassified subsequently to profit or loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of hedging reserve – changes in fair value</td>
<td>(10)</td>
<td>(10)</td>
</tr>
<tr>
<td>Cost of hedging reserve – reclassified to profit or loss</td>
<td>(2)</td>
<td>(2)</td>
</tr>
<tr>
<td>Related tax</td>
<td>(67)</td>
<td>(70)</td>
</tr>
<tr>
<td><strong>Other comprehensive income, net of tax</strong></td>
<td>419 (7)</td>
<td>426</td>
</tr>
<tr>
<td>Total comprehensive income</td>
<td>6,522</td>
<td>6,522</td>
</tr>
</tbody>
</table>
### Transitional disclosure - classification and measurement

#### AASB 7 Financial Instruments: Disclosures

<table>
<thead>
<tr>
<th>Note</th>
<th>Original classification under IAS 39</th>
<th>Original carrying amount under IAS 39</th>
<th>New classification under IFRS 9</th>
<th>New carrying amount under IFRS 9</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Financial assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest rate swaps</td>
<td>Fair value - hedging instrument</td>
<td>Fair value - hedging instrument</td>
<td>131</td>
</tr>
<tr>
<td></td>
<td>Forward exchange contracts used for hedging</td>
<td>Fair value - hedging instrument</td>
<td>Fair value - hedging instrument</td>
<td>362</td>
</tr>
<tr>
<td></td>
<td>Other forward exchange contracts</td>
<td>Held-for-trading</td>
<td>Held-for-trading</td>
<td>89</td>
</tr>
<tr>
<td></td>
<td>Sovereign debt securities</td>
<td>Held-for-trading</td>
<td>Held-for-trading</td>
<td>591</td>
</tr>
<tr>
<td></td>
<td>Corporate debt securities</td>
<td>Available-for-sale</td>
<td>Available-for-sale</td>
<td>373</td>
</tr>
<tr>
<td></td>
<td>Equity securities</td>
<td>Designated as at FVPL</td>
<td>Designated as at FVPL</td>
<td>511</td>
</tr>
<tr>
<td></td>
<td>Trade and other receivables</td>
<td>Loans and receivables</td>
<td>Loans and receivables</td>
<td>22,485</td>
</tr>
<tr>
<td></td>
<td>Total financial assets</td>
<td></td>
<td></td>
<td>28,892</td>
</tr>
</tbody>
</table>

#### Qualitative information – changes in classification

- **Original category & amount – AASB 139**
- **New category & amount – AASB 9**

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### AASB 7 Financial Instruments: Disclosures

**Disclose changes, showing separately:**

1) **Measurement changes**

Re-measurement relates to application of new impairment requirements.

2) **Category changes**
## Transitional disclosure - Impairment

### Trade receivables and contract assets (continued)

*Movements in the allowance for impairment in respect of trade receivables and contract assets*

The movement in the allowance for impairment in respect of trade receivables and contract assets during the year was as follows. Comparative amounts for 2015 represent the allowance account for impairment losses under IAS 39.

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In thousands of euro</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance at 1 January per IAS 39</strong></td>
<td>54</td>
<td>20</td>
</tr>
<tr>
<td><strong>Adjustment on initial application of IFRS 9</strong></td>
<td>160</td>
<td></td>
</tr>
<tr>
<td><strong>Balance at 1 January per IFRS 9</strong></td>
<td>214</td>
<td></td>
</tr>
</tbody>
</table>

### AASB 7 Financial Instruments: Disclosures

- **Disclose reconciliation of provisions**
  - AASB 139 to AASB 9
  - AASB 137 to AASB 9

---

I.e. Applicable for entities with financial guarantee contracts or loan commitments
### On-going - Hedge accounting

**Cash flow hedges**

At 31 December 2016, the Group held the following instruments to hedge exposures to changes in foreign currency and interest rates.

<table>
<thead>
<tr>
<th>Maturity</th>
<th>1-6 months</th>
<th>6-12 months</th>
<th>More than one year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Foreign currency risk</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Forward exchange contracts</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net exposure (in thousands of euro)</td>
<td>253</td>
<td>63</td>
<td>-</td>
</tr>
<tr>
<td>Average EUR:USD forward contract rate</td>
<td>0.91</td>
<td>0.87</td>
<td>0.83</td>
</tr>
<tr>
<td>Average EUR:GBP forward contract rate</td>
<td>1.27</td>
<td>1.23</td>
<td>1.20</td>
</tr>
<tr>
<td>Average EUR:CHF forward contract rate</td>
<td>0.92</td>
<td>0.91</td>
<td>0.90</td>
</tr>
<tr>
<td><strong>Interest rate risk</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Interest rate swaps</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net exposure (in thousands of euro)</td>
<td>-</td>
<td>41</td>
<td>78</td>
</tr>
<tr>
<td>Average fixed interest rate</td>
<td>2.2%</td>
<td>2.4%</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

**AASB 7 Financial Instruments: Disclosures**

- **Disclose**
  - Timing of notional amount
  - Average price or rate of the hedging instrument.
## On-going - Impairment

### AASB 7 Financial Instruments: Disclosures

#### Disclose

**Exposure to Credit Risk**

Judgments used in determining expected credit loss

#### AASB 101 Presentation of Financial Statements considerations

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**Trade receivables and contract assets (continued)**

*Expected credit loss assessment for corporate customers as at 1 January and 31 December 2016 (continued)*

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets for corporate customers as at 31 December 2016.

<table>
<thead>
<tr>
<th>31 December 2016</th>
<th>Equivalent to external credit rating (Agency)</th>
<th>Weighted-average loss rate</th>
<th>Gross carrying amount</th>
<th>Impairment loss allowance</th>
<th>Credit-impaired</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grades 1-6: Low risk</td>
<td>BBB- to AAA</td>
<td>0.2%</td>
<td>5,576</td>
<td>(11)</td>
<td>No</td>
</tr>
<tr>
<td>Grades 7-9: Fair risk</td>
<td>BB- to BB+</td>
<td>0.7%</td>
<td>17,823</td>
<td>(125)</td>
<td>No</td>
</tr>
<tr>
<td>Grade 10: Substandard</td>
<td>B- to B+</td>
<td>3.1%</td>
<td>1,289</td>
<td>(40)</td>
<td>No</td>
</tr>
<tr>
<td>Grade 11: Doubtful</td>
<td>C to CCC+</td>
<td>7.1%</td>
<td>144</td>
<td>(10)</td>
<td>Yes</td>
</tr>
<tr>
<td>Grade 12: Loss</td>
<td>D</td>
<td>52.0%</td>
<td>8</td>
<td>(4)</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>24,840</strong></td>
<td><strong>(190)</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>31 December 2016</th>
<th>Gross carrying amount</th>
<th>Weighted-average loss rate</th>
<th>Loss allowance</th>
<th>Credit-impaired</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current (not past due)</td>
<td>6,242</td>
<td>0.3%</td>
<td>(19)</td>
<td>No</td>
</tr>
<tr>
<td>1–30 days past due</td>
<td>1,298</td>
<td>2.1%</td>
<td>(27)</td>
<td>No</td>
</tr>
<tr>
<td>31–60 days past due</td>
<td>244</td>
<td>18.4%</td>
<td>(45)</td>
<td>No</td>
</tr>
<tr>
<td>61–90 days past due</td>
<td>96</td>
<td>38.0%</td>
<td>(36)</td>
<td>No</td>
</tr>
<tr>
<td>More than 90 days past due</td>
<td>5</td>
<td>61.0%</td>
<td>(3)</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7,885</strong></td>
<td></td>
<td><strong>(130)</strong></td>
<td></td>
</tr>
</tbody>
</table>

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On-going - Classification and measurement

Impact of modification on ECL

Assets with lifetime ECL
- Modify terms
- Concluded not substantial

Assets that had lifetime ECL
- Modified terms since initial recognition
- Changed to 12 month ECL during the year

Disclose gain / loss and Amortised Cost before modification

<table>
<thead>
<tr>
<th>Asset A:</th>
<th>ECL</th>
<th>Modify terms</th>
<th>Lifetime ECL</th>
<th>Change to 12 month ECL during the year</th>
</tr>
</thead>
</table>

Modified financial assets
The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL.

<table>
<thead>
<tr>
<th>Financial assets modified during the period</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortised cost before modification</td>
<td>450</td>
</tr>
<tr>
<td>Net modification loss</td>
<td>17</td>
</tr>
<tr>
<td>Financial assets modified since initial recognition</td>
<td>14</td>
</tr>
</tbody>
</table>

Gross carrying amount at 31 December of financial assets for which loss allowance has changed to 12-month measurement during the period.
Transitioning from prior versions
Transitioning from prior versions of AASB 9

Generally do not revisit the application of previous transition requirements or reliefs.

The new DIA is used for the purposes of applying any incremental transition requirements and reliefs of the subsequently adopted version.

There is a new DIA for each version of AASB 9 adopted.

Entities should reassess their business model upon initial adoption of AASB 9 (2014).

The fair value option for financial assets and financial liabilities is reopened at the DIA of IFRS 9 (2014).
Implementation journey
AASB 9 will impact several business areas

Key challenges

- Selection of transition options
- Establish new accounting policies
- Impairment methodology changes
- Increased disclosure requirements

- Manage communication of impact to financial metrics (e.g., KPIs)
- Consider updating risk management strategies/policies
- Consider new eligible hedged items and accounting for hedging instruments
- Complete and accurate data collection
- Establish new processes and controls
- Loan restructuring / refinancing considerations (substantial / not substantial modification)

- Education of new requirements
- Embed new classification requirements into existing processes
- Education of new requirements
- Embed new classification requirements into existing processes

- Stakeholders
- People and change
- Business areas impacted by AASB 9
- Systems, processes and controls
- Funding strategy
- Risk management

Accounting and financial reporting
What are your next steps?

1. Establish your project team
2. Understand your financial instrument portfolio
3. Select transition option
4. Gap assessment of current systems, processes and controls
5. Determine future state
6. Implementation & finalise documentation
How we can help

Run or support implementation projects
- Full service solution using KPMG global methodologies & tools to assist you with gap analysis, understanding transition options, impact assessment for key financial metrics, analysis of changes required to processes, systems or disclosures, training and overall project management support.

Transition impact assessment
- KPMG can help you determine the most appropriate transition option by quantifying the impacts to the balance sheet, profit or loss and key reported metrics to assist with communicating the change to key stakeholders.

Classification and measurement
- Review existing financial assets/liabilities classifications including business models assessing their classification under AASB 9.
- Perform or review valuations for financial assets/liabilities previously accounted for under amortised cost, now required to be at fair value.

Accounting advice
- Support the finance team with their implementation projects by providing advice over any key judgments and assumptions required under AASB 9.

Treasury systems and hedge accounting
- Perform systems and derivative set up assessments and/or configuration services to ensure the changes to the hedge accounting model are appropriately reflected.
- Aligning treasury/risk management/accounting policies and hedge documentation to reflect AASB 9.

Impairment
- Identify modifications to current impairment processes and controls.
- Support the company to build a framework and methodology to collate data and quantitatively calculate impairment under the new expected losses model.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates.
Closing
Key takeaways: Broader business impacts

Financial and operational system changes
- Existing systems may not capture required data
- Dual systems for certain transition options
- Transition options
- Debt covenants

Governance and change
- Training (accounting, sales, etc)
- Effect on management compensation metrics
- Impact on forecasting and budgeting processes
- Liquidity strategy

Internal control assessment
- Processes re-designed
- New controls vs modify existing controls
- Identify new risk points

Communication with stakeholders
- Identify relevant stakeholders
- Messaging
- Timing of communication
- Comparability of data communicated
- Credit rating
Resources from KPMG

For access to KPMG’s insights on evolving accounting practice, including access to our Example Public and Example Bank financial statements go to:  http://www.kpmg.com/ifrs

Access previous Accounting & Reporting Webinars: http://www.kpmg.com/au/accountingreporting
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