信永中和 ShineWing

HKFRS 9 Financial Instruments (2014)

Newsletter – Issue No. 11/2014

MAIN FEATURES

- Hong Kong Financial Reporting Standard ("HKFRS") 9 (2014) incorporates the contents of previously issued piecemeal HKFRS 9 issued in 2009, 2010 and 2011, adjusted for certain changes on classification and measurement of financial assets as well as introducing a forward-looking expected credit loss model for impairment of financial instruments.

- HKFRS 9 (2014) suggests the classification and measurement of financial assets should be based on two criteria:
  (i) Business model for managing the financial assets; and
  (ii) Contractual cash flow characteristics of the financial assets.

- HKFRS 9 (2014) introduces fair value through other comprehensive income as a new type of classification and measurement of financial assets.

- The assessment and recognition of impairment of financial instruments are based on the expected credit loss rather than until there is evidence of existence of impairment indicator. An entity should either recognise loss allowance at an amount equal to lifetime expected credit losses or at an amount equal to 12-month expected credit losses.

- Effective for annual periods beginning on or after 1 January 2018.

Background

In July 2014, International Accounting Standards Board has finalised the reform for accounting for financial instruments and published the final version of International Financial Reporting Standard ("IFRS") 9 *Final Instruments* with the aim to replace the existing International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* . This finalised version has integrated the content of the piecemeal IFRS 9 previously issued in 2009 (related to the classification and measurement of financial assets), 2010 (related to the classification and measurement of financial liabilities) and 2013 (related to hedge accounting) as well introduced the new concept on impairments of financial instruments. This finalised version also made several changes on the contents of its previously issued piecemeal IFRS 9 which would be discussed in this newsletter below.

Subsequently in September 2014, the Hong Kong Institute of Certified Public Accountants also issued the same standard, HKFRS 9 (2014) *Financial Instruments*, so as to maintain convergence with IFRSs.

Content of HKFRS 9 (2014)

a) Difference between HKFRS 9 (2014) and its previously issued piecemeal HKFRS 9

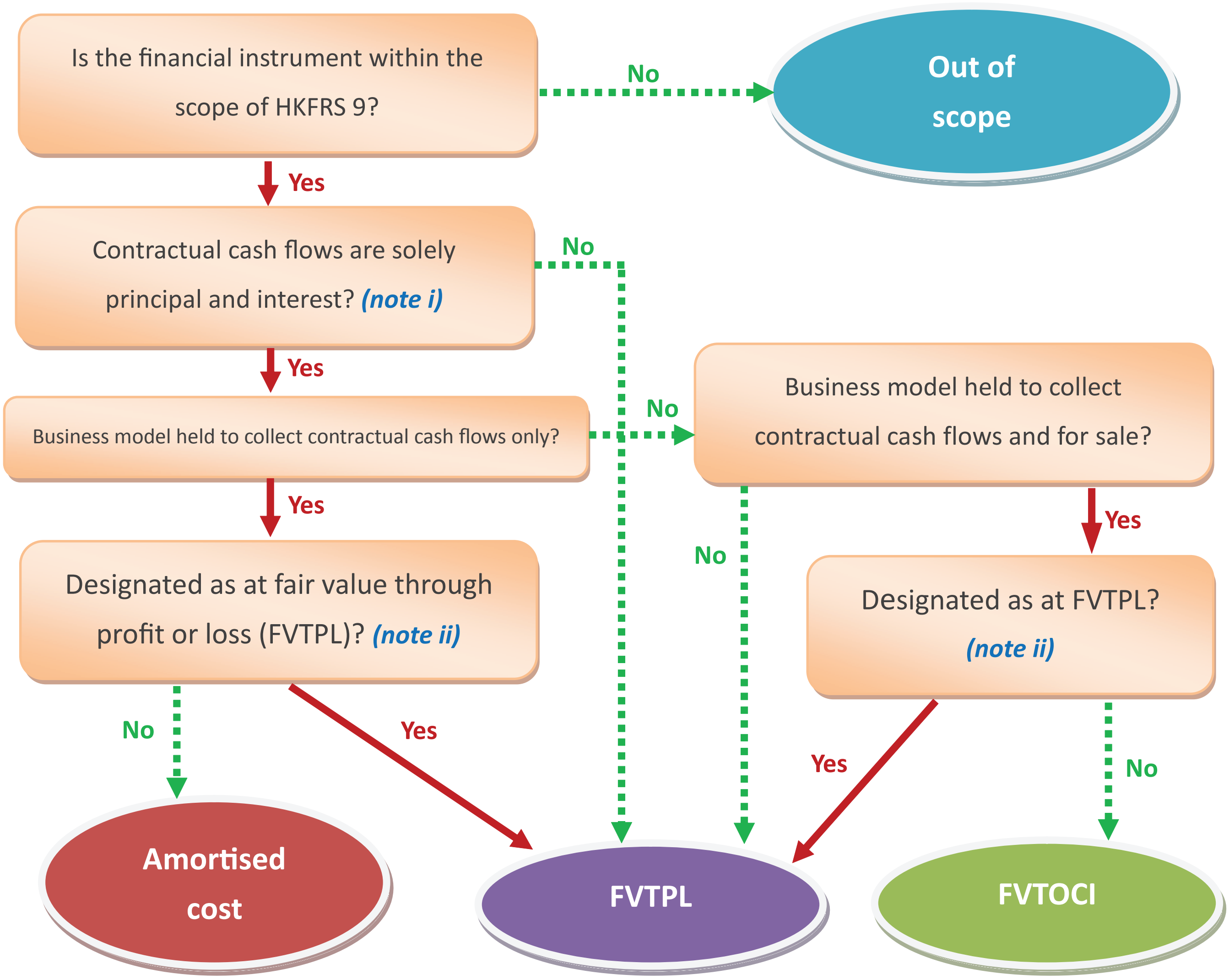
Previously issued piecemeal HKFRS 9	Topics	HKFRS 9 (2014)
HKFRS 9 issued in 2009	*Classification and measurement of financial assets*	Same contents except for the followings: • Introduction of the new measurement category: fair value through other comprehensive income ("FVTOCI") • More guidance on the application of business model for managing financial assets and contractual cash flow characteristics when determining how financial assets should be recognised and measured • Introduction of new expected credit loss impairment model
HKFRS 9 issued in 2010	*Classification and measurement of financial liabilities*	Same contents
HKFRS 9 issued in 2013	*Hedge accounting*	Same contents

This newsletter would only focus on the updates or changes as compared with the previously issued piecemeal HKFRS 9 issued in 2009, 2010 and 2013.

b) Classification and measurement of financial assets

The measurement and classification of financial assets are based on the following two criteria:
(i) the entity's business model for managing the financial assets; and
(ii) the contractual cash flow characteristics of the financial assets.

The following flow chart summarised the measurement and classification of financial assets:



Notes:

i) Principal is the fair value of the financial asset at initial recognition. Interest consists of consideration for the time value of money, credit risk associated with the principal amount outstanding during a particular period of time and other basic lending risks and costs, as well as a profit margin.

ii) At initial recognition, an entity may irrevocably designate a financial assets as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

c) Reclassification of financial assets

When and only when, an entity changes its business model for managing the financial assets, it should reclassify the financial assets with reference to the following table and apply the reclassification prospectively from the reclassification date. The entity should not restate any previously recognised gain, losses (including impairment gains or losses) or interest.

The following table summarised the accounting treatment when reclassification of financial assets take place:

From \ To	Amortised cost	FVTPL	FVTOCI
Amortised cost		• Fair value measured at the reclassification date. • Any gain or loss arising from the difference between the previous amortised cost and the fair value is recognised in profit or loss.	• Fair value measured at the reclassification date. • Any gain or loss arising from the difference between the previous amortised cost and the fair value is recognised in other comprehensive income. • Effective interest rate and measurement of expected credit losses are not adjusted as a result of reclassification. Loss allowance would be derecognised (and thus no longer be recognised as an adjustment to the gross carrying amount) but instead would be recognised as an accumulated impairment amount (of an equal amount) in other comprehensive income and would be disclosed from reclassification date.
FVTPL	• Fair value at the reclassification date becomes its new gross carrying amount.		• Continue to be measured at fair value.

FVTOCI	• Cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value at the reclassification date. Therefore, financial asset is measured at reclassification date as if it had always been measured at amortised cost. This is not a reclassification adjustment from other comprehensive income to profit or loss under Hong Kong Accounting Standard 1 *Presentation of Financial Statements*. • Effective interest rate and measurement of expected credit losses are not adjusted as a result of reclassification. A loss allowance would be recognised as an adjustment to the gross carrying amount from the reclassification date.	• Continue to be measured at fair value. • Cumulated gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.	

d) Impairment of financial assets

An entity should recognise a loss allowance for expected credit losses on:

(i) a financial asset that is measured at amortised cost or at FVTOCI;

(ii) a lease receivable;

(iii) a contract asset that are recognised and measured in accordance with HKFRS 15 *Revenue from Contracts with Customers*;

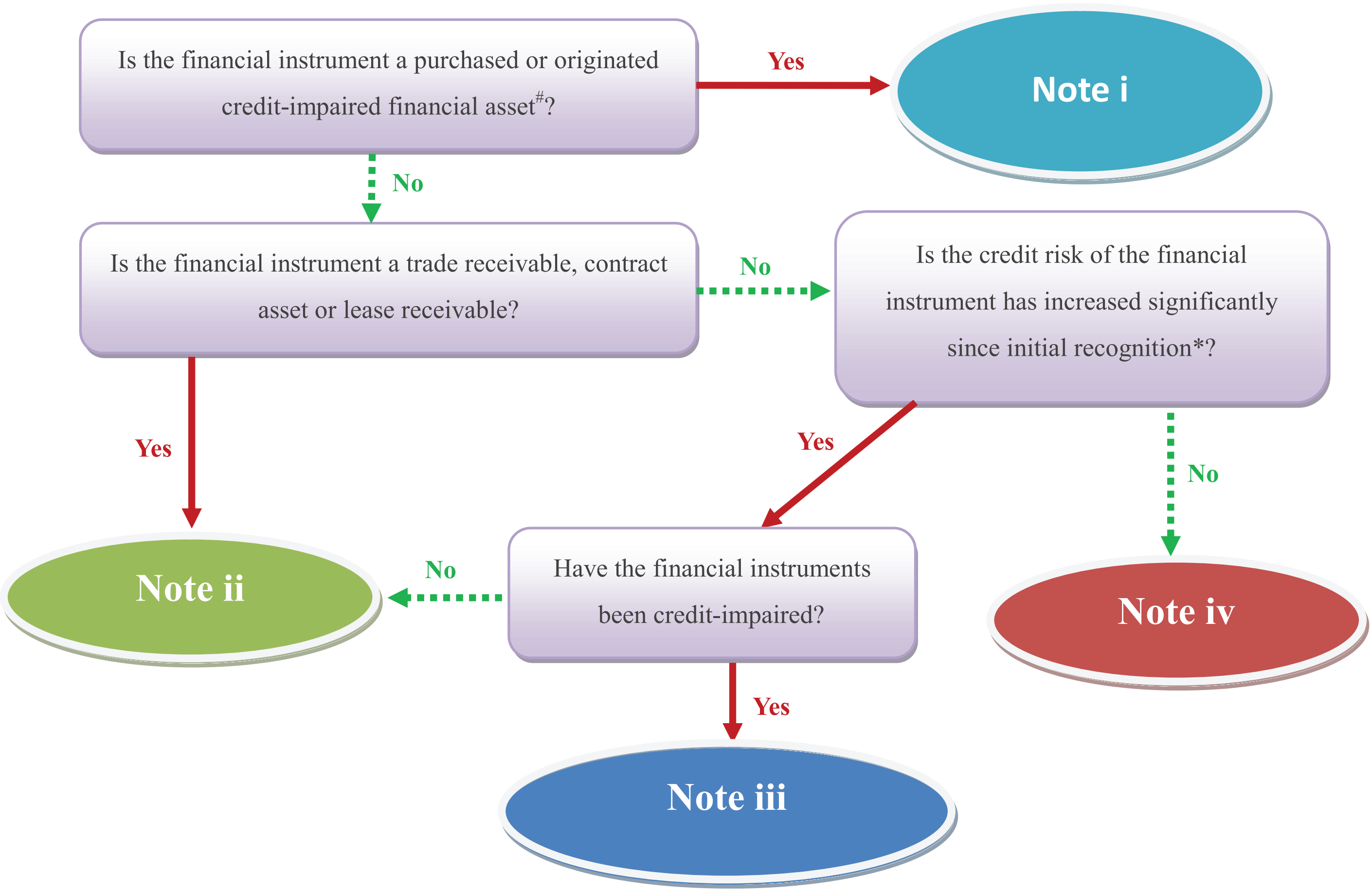
(iv) a loan commitment when there is a present obligation to extend credit (except for those measured at FVTPL); or

(v) a financial guarantee contract to which HKFRS 9 (2014) is applied (except for those measured at FVTPL).

The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition – whether assessed on an individual or collective basis – considering all reasonable and supportable information, including that which is forward-looking.

d) Impairment of financial assets (*Continued*)

The following flow chart summarised the accounting treatment of impairment of financial assets in different scenarios:



 # Purchased or originated credit-impaired financial assets exist when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset has occurred on initial recognition.

** There is a <u>rebuttable presumption</u> that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.*

d) Impairment of financial assets *(Continued)*

Notes:

i)	At each of the reporting date, an entity should: a) only recognise the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance; b) recognise in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss; and c) recognise favourable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.
ii)	An entity should: a) measures the loss allowance at an amount equal to lifetime expected credit losses; b) recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date; and c) calculate the interest revenue on the gross carrying amount.
iii)	An entity should: a) measures the loss allowance at an amount equal to lifetime expected credit losses; b) recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date; and c) calculate the interest revenue based on the amortised cost (i.e. the gross carrying amount adjusted for the loss allowance).
iv)	An entity should: a) measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses; b) recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date; and c) calculate the interest revenue on the gross carrying amount.

If an entity has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in previous reporting period but determines at the current reporting date that credit risk of the financial instrument does not increase significantly since initial recognition, the entity should measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

d) Impairment of financial assets *(Continued)*

An entity should measure expected credit losses of a financial instrument in a way that reflects:

a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
b) the time value of money; and
c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Transitions and effective date

HKFRS 9 becomes effective for annual periods beginning on or after 1 January 2018.

Contact us

HONG KONG
43/F., The Lee Gardens,
33 Hysan Avenue,
Causeway Bay, Hong Kong
Tel: (852) 3583 3800
Fax: (852) 3583 8001
Email: info@shinewing.hk
Website: www.shinewing.hk

BEIJING
9/F,Block A, Fu Hua Mansion
No.8 Chaoyang Men Beidajie,
Dongcheng District, Beijing,
PRC (Postal Code: 100027)
Tel: (86) 10 6554 2288
Fax: (86) 10 6554 7190

SHENZHEN
10/F, Block A, United Plaza,Binhe Road,
Futian District, Shenzhen,
PRC (Postal Code: 518000)
Tel: (86) 755 8290 0800
Fax: (86) 755 8290 0815

CHENGDU
12/F, Block A, No.1, Hang Kong Road,
Air China Century Center, Chengdu,
PRC (Postal Code: 610041)
Tel: (86) 28 8672 2255
Fax: (86) 28 8529 3622

SHANGHAI
32/F, China Development Bank Tower,
No.500, Pudong South Road, Pudong New Area,
Shanghai, PRC (Postal Code: 200120)
Tel: (86) 21 6164 3939
Fax: (86) 21 6164 3900

XI'AN
16/F, Block C, Fortune Center, No.180,
Western section of the second ring road,
Xi'an, PRC (Postal Code: 710075)
Tel: (86) 29 8836 4536
Fax: (86) 29 8836 4578

TIANJIN
21/F, Xinda Plaza, No.188, Jiefang Road,
Heping District, Tianjin, PRC
(Postal Code: 300042)
Tel: (86) 22 5829 6288
Fax: (86) 22 5829 6299

QINGDAO
27/F, HuaYin Mansion, No.5,
Donghai Road(west), Shinan District, Qingdao,
PRC (Postal Code: 266071)
Tel: (86) 532 8089 5858
Fax: (86) 532 8089 5959

CHANGSHA
7/F, Yun Da Guo Ji Plaza, No.478, Section 1,
Middle Furong Road, Changsha, Hunan,
PRC (Postal Code: 410005)
Tel: (86) 731 8828 5566
Fax: (86) 731 8828 5567

CHANGCHUN
7/F, Building 7, Wanhao International Business
Plaza, No.9399, People Street, Changchun,
Jilin, PRC (Postal Code: 130022)
Tel: (86) 431 8193 9933
Fax: (86) 431 8190 2003

YINCHUAN
11/F, Investment Plaza, No.65,
Hubin Street(west), Xingqing District,
Yinchuan, Nixia, PRC (Postal Code: 750001)
Tel: (86) 951 672 1993
Fax: (86) 951 672 1553

JINAN
6/F Huate Plaza, No.17703 Jingshi Road, Lixia
District, Jinan, PRC (Postal Code: 250012)
Tel: (86) 531 8925 9000
Fax: (86) 531 8925 9099

DALIAN
15/F, Block B, Karen International Mansion,
No.1-1 Section A Wucai Town,
Dalian Development Area, Liaoning,
PRC (Postal Code: 116600)
Tel: (86) 0411 8762 6818
Fax: (86) 0411 8762 6307

KUNMING
9/F, Ruyi Plaza, No.36,
Middle People Road, Kunming,
Yunnan, PRC (Postal Code: 650021)
Tel: (86) 871 364 8720
Fax: (86) 871 364 5939

GUANGZHOU
No. 2503 East Tower, Tianyu Business Plaza,
No. 753 Dongfeng, East Road, Yuexiu District,
Guangzhou, PRC (Postal Code: 510080)
Tel: (86) 020 2281 6856
Fax: (86) 020 2281 6866

FUZHOU
13/F, Block A, Hongli Mansion,No.168,
Hudong Road, Fuzhou,350003,
PRC (Postal Code: 350003)
Tel: (86) 0591 2830 9955
Fax: (86) 0591 2830 9000

NANJING
7/F, Hetai International Mansions, No. 128,
Shanxi Road, Nanjing, Jiangsu, PRC
(Postal Code: 210009)
Tel: (86) 025 8372 1886
Fax: (86) 025 8371 6000

URUMQI
13/F, Hongshan New Century Building, No. 8, Xin
Hua North Road, Urumuqi, Xinjiang, PRC
(Postal Code: 830002)
Tel: (86) 0991 8891 969
Fax: (86) 0991 8890 116

WUHAN
Room 2701-2709, 27/F, Block 4, Xingguang
Wuxian Building (Guanggu Yinzuo), No.727
Luoyu Road, Donghu New Technology
Development Zone, Wuhan, Hubei, PRC
(Postal Code: 430071)
Tel: (86) 027 5975 9900
Fax: (86) 027 5975 9922

HANGZHOU
Room 702, Wangjiang Internatioal Center,
Shangcheng District, Hangzhou, Zhejiang, PRC
(Postal Code: 310008)
Tel: (86) 0571 2689 7676
Fax: (86) 0571 2689 7636

TAIYUAN
Room 1103/1105, Fortune Building, No.98
Southern Inner Ring Street, Taiyuan, Shanxi, PRC
(Postal Code: 030012)
Tel: (86) 0351 7899 187
Fax: (86) 0351 7899 023

SINGAPORE
151 Chin Swee Road, No. 02-05/06 Manhattan
House, Singapore (Postal Code: 169876)
Tel: (65) 6732 4150
Fax: (65) 6732 4152

MELBOURNE
CITIC House, Level 1, 99 King Street,
Melbourne, Vic, 3000, Australia
Tel: (613) 8613 0000
Fax: (613) 8613 0099

JAPAN
2-2-15-402 Hamamatsu Chou, Minato-ku,
Tokyo, 105-0013 Japan
Tel: (81-3) 3436 1188
Fax: (81-50) 3020 3622