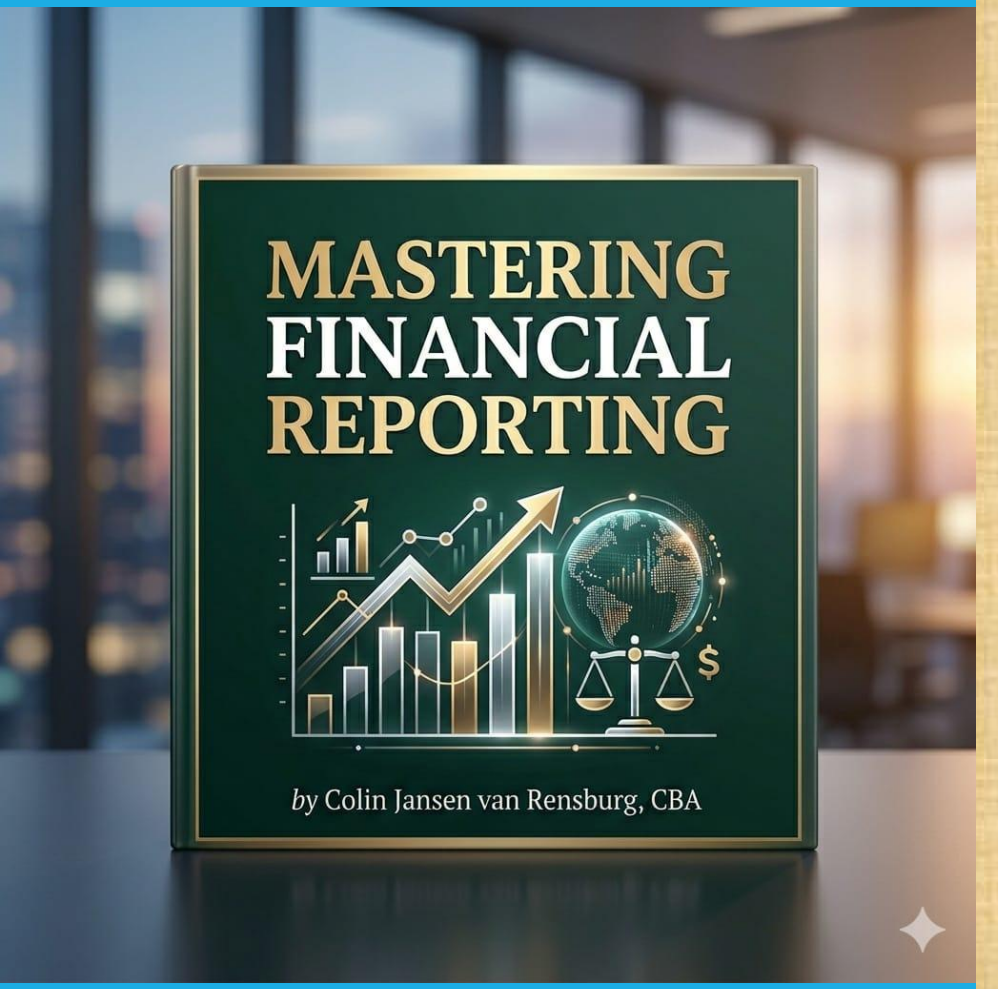


Financial Instruments (IFRS 9)

- Classification
- Measurement
- Impairment
- Derecognition
- Hedge Accounting

Objective of IFRS 9

Principles for classification & measurement

Expected Credit Loss (ECL) impairment model

Hedge accounting

Derecognition rules

Replaces IAS 39 to better reflect economic substance

Classification Logic

Two tests:

Business Model Test — hold to collect; hold to collect & sell; trading

SPPI Test — cash flows = principal + interest (time value, credit risk, liquidity risk, profit margin)

If SPPI fails → **FVTPL**

Categories of Financial Assets

- **Amortised Cost (AC)** — hold to collect + SPPI pass
- **FVOCI** — hold to collect & sell + SPPI pass
- **FVTPL** — trading, SPPI fail, or designation

Amortised Cost (AC)

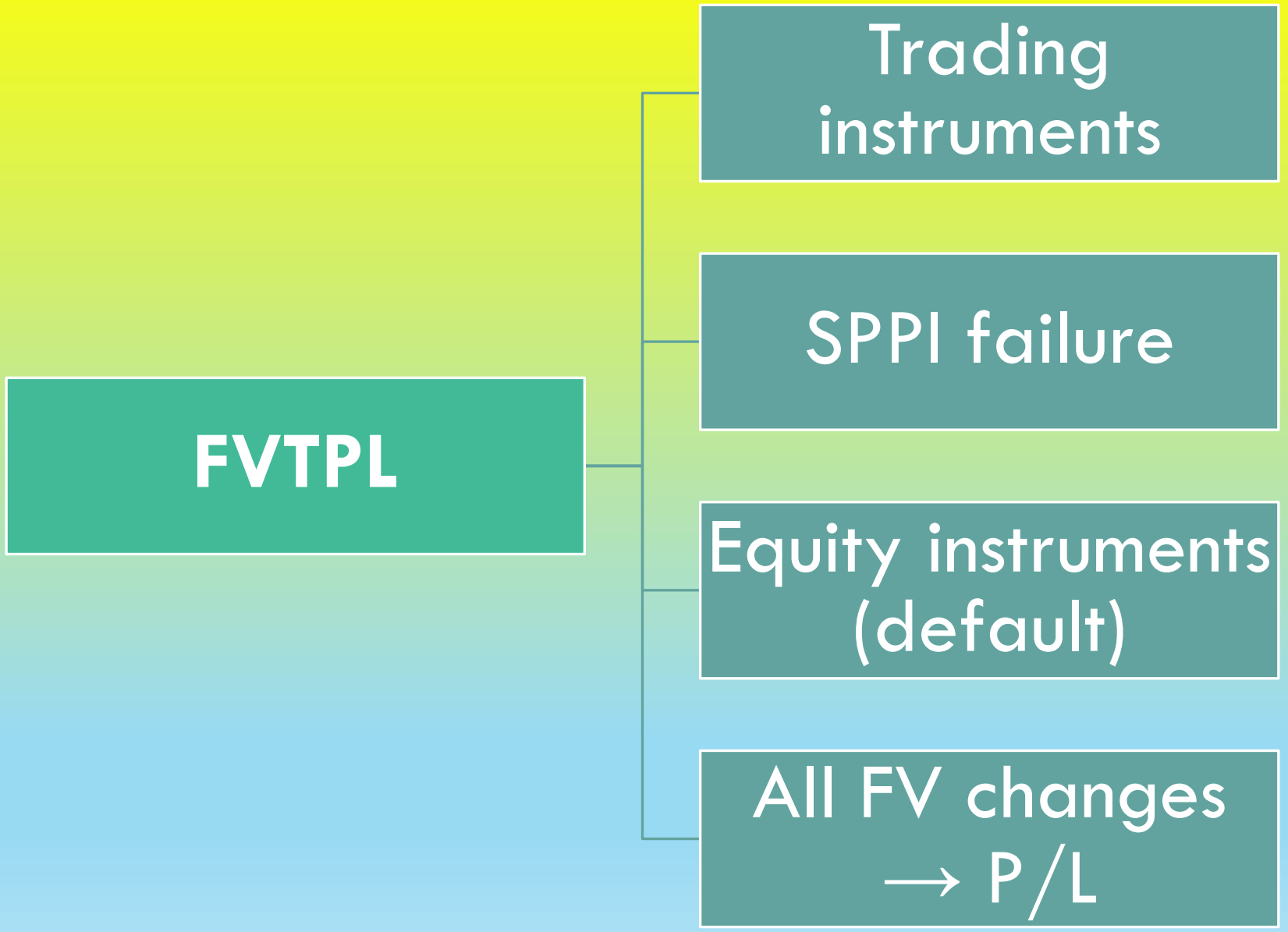
- Initial: FV + transaction costs
- Subsequent: amortised cost using EIR
- Impairment: ECL model

Examples: trade receivables, loans, intercompany loans

FVOCI (Debt Instruments)

- FV changes → OCI
- Interest income → P/L
- Impairment → P/L

Disposal → recycle OCI to P/L


FVTPL
Trading instruments
SPPI failure
Equity instruments (default)
All FV changes → P/L

Equity Instruments

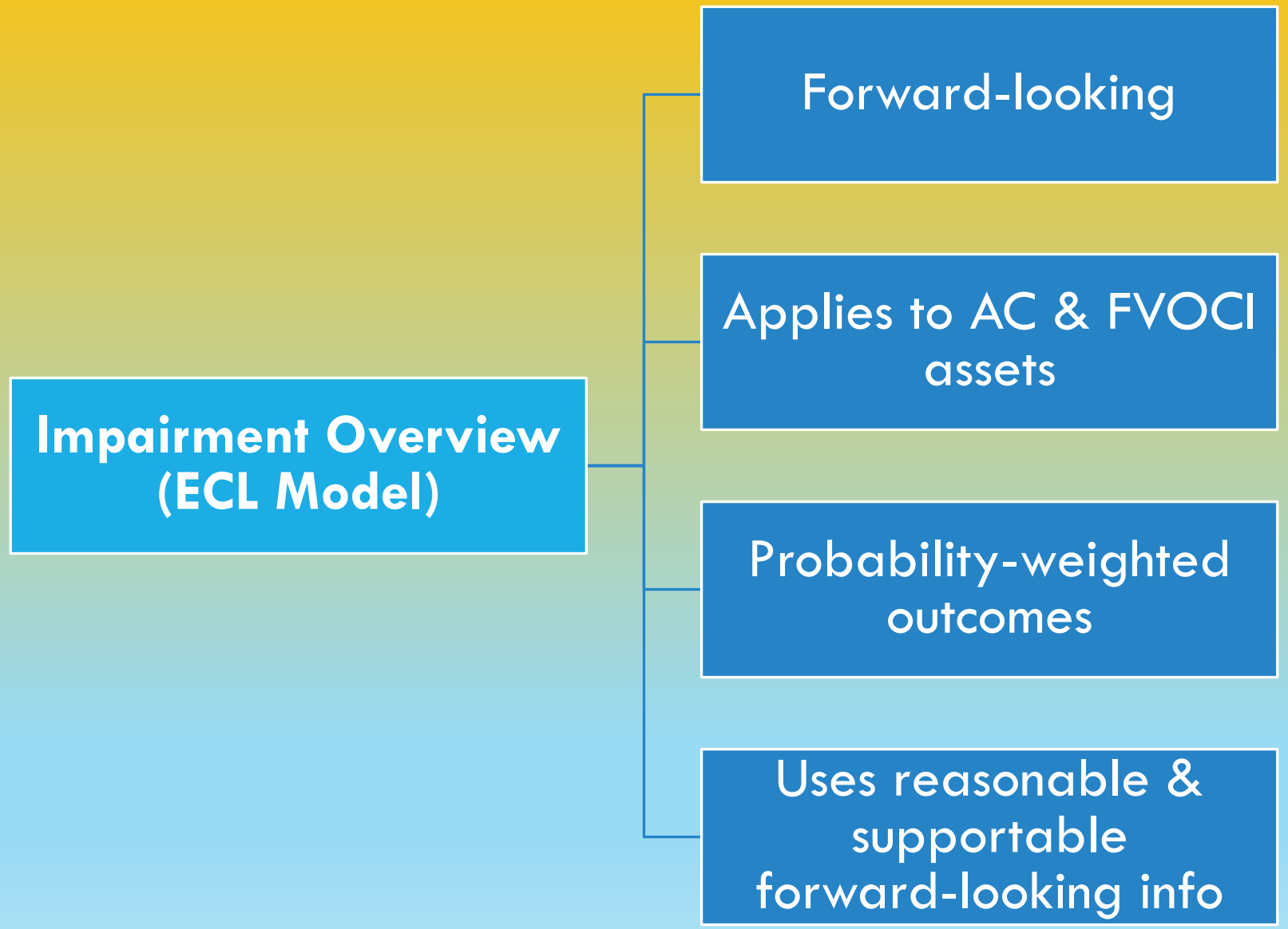
- Cannot be amortised cost
- Default: **FVTPL**
- Election: **FVOCI (no recycling)**
- Dividends → P/L

Financial Liabilities

Mostly measured at amortised cost

Exceptions:

- FVTPL liabilities
- Own credit risk → OCI
- Financial guarantee contracts
- Loan commitments


Impairment Overview (ECL Model)
Forward-looking
Applies to AC & FVOCI assets
Probability-weighted outcomes
Uses reasonable & supportable forward-looking info

Three-Stage Model

Stage 1:

- Performing
- 12-month ECL
- Interest on gross amount

Stage 2:

- Significant increase in credit risk
- Lifetime ECL
- Interest on gross amount

Stage 3:

- Credit-impaired
- Lifetime ECL
- Interest on **net** carrying amount

ECL Formula

$$ECL = PD \times LGD \times EAD$$

- PD = Probability of Default
- LGD = Loss Given Default
- EAD = Exposure at Default

Simplified Approach

Used for:

- Trade receivables
- Contract assets
- Lease receivables

Rules:

- No staging
- Always lifetime ECL
- Provision matrix

Example: Provision Matrix

Ageing & Loss Rates:

- Current: R500 000 × 1% = R5 000
- 30 days: R200 000 × 5% = R10 000
- 60 days: R100 000 × 10% = R10 000
- 90+ days: R50 000 × 40% = R20 000

Total ECL = R45 000

Journal Entry:

- Dr Credit losses R45 000
- Cr Allowance for credit losses R45 000

Derecognition of Financial Assets

Derecognise when:

- Rights to cash flows expire, OR
- Asset transferred AND:
  - Risks & rewards transferred, OR
  - Control relinquished

Derecognition Example

Sale of receivables:

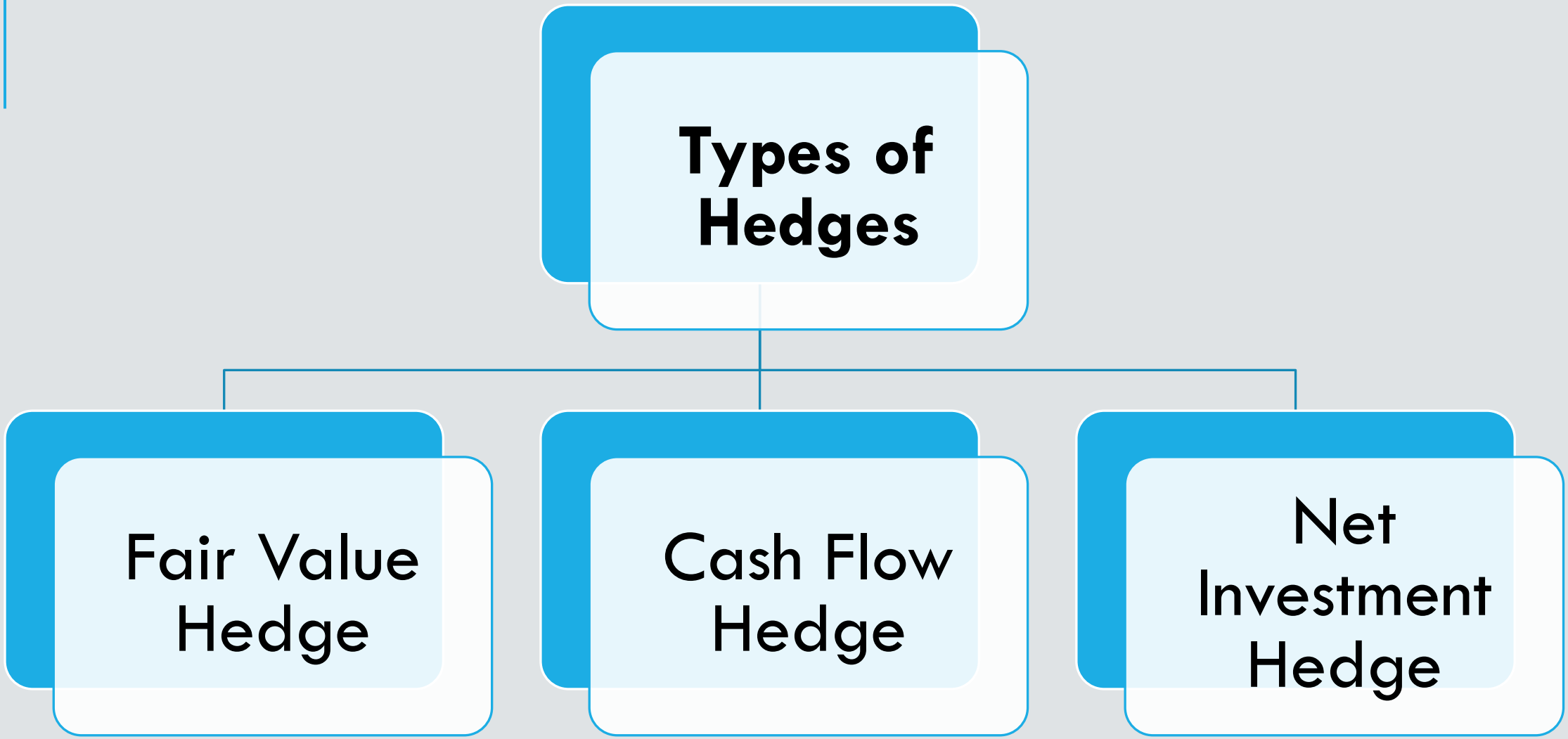
R1 000 000 for

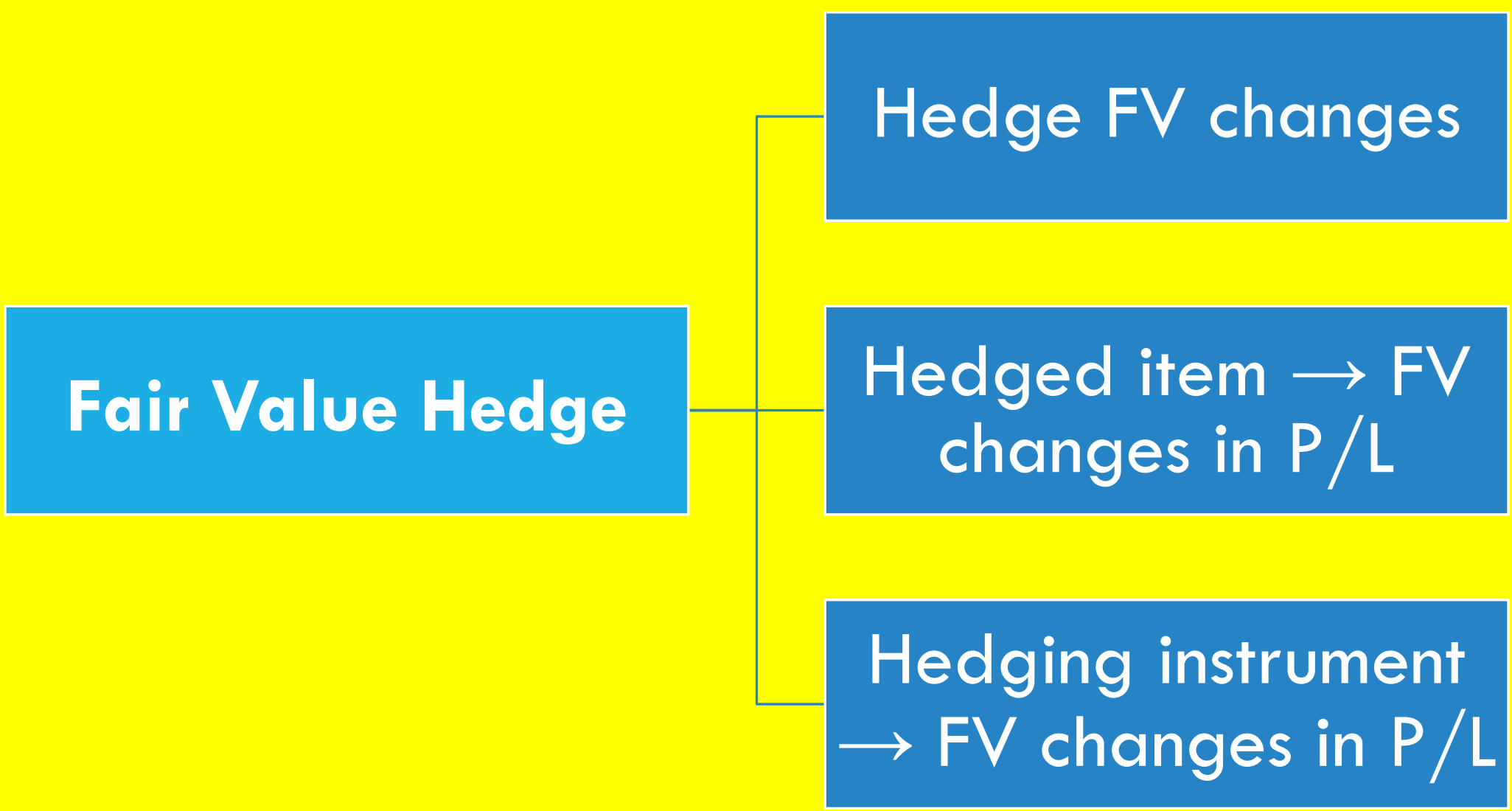
R950 000

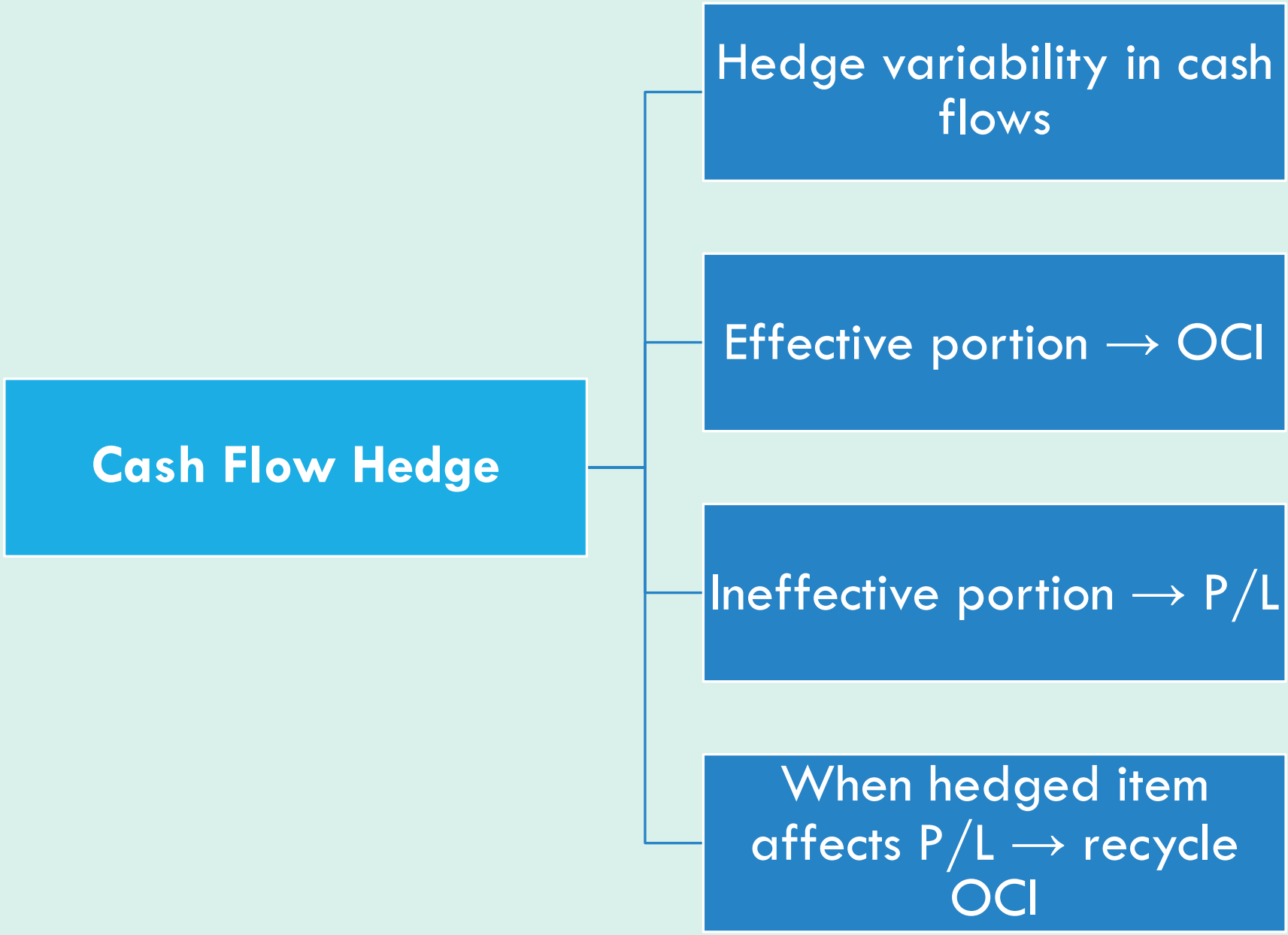
- Risks & rewards transferred

Journal Entry:

- Dr Bank R950 000
- Dr Loss on sale of Receivables R50 000
- Cr Trade receivables R1m

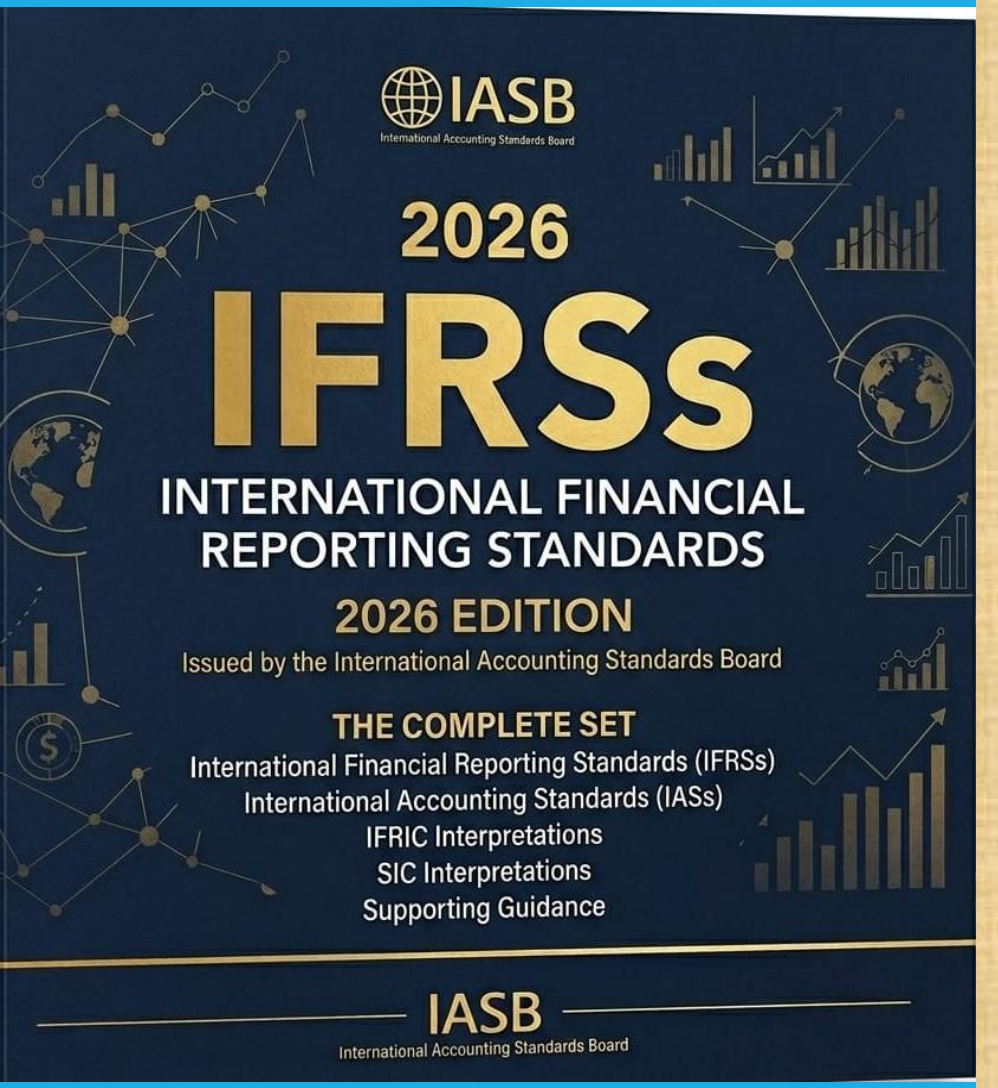

Types of Hedges
Fair Value Hedge
Cash Flow Hedge
Net Investment Hedge


Fair Value Hedge
Hedge FV changes
Hedged item ⟶ FV changes in P/L
Hedging instrument ⟶ FV changes in P/L


Cash Flow Hedge
Hedge variability in cash flows
Effective portion → OCI
Ineffective portion → P/L
When hedged item affects P/L → recycle OCI

Hedge Effectiveness Requirements

- Economic relationship
- Credit risk does not dominate
- Hedge ratio aligned with risk management



Disclosure Requirements

- Risk management strategy
- Credit, liquidity, market risk
- ECL methodology
- Loss allowance reconciliation
- FV hierarchy (Level 1–3)