The future of financial instruments accounting is becoming clearer. In April, the IASB and the FASB decided to reduce differences between their classification and measurement models, while the core of IFRS 9 is to survive. In contrast to the current incurred loss approach under IAS 39, an expected loss impairment approach will be applicable for financial assets, with practical expedients for trade receivables.

Andrew Vials,
KPMG’s global IFRS Financial Instruments leader
KPMG International Standards Group

The future of IFRS financial instruments accounting

This edition of IFRS – Financial Instruments Newsletter highlights the discussions and tentative decisions of the IASB in April 2012 on the financial instruments (IAS 39 replacement) project.

Highlights

- The IASB and the FASB moved towards converged answers for all issues discussed in April.
- The IFRS 9 business model classification criterion for amortised cost classification will continue to be based on holding to collect contractual cash flows, but with added implementation guidance.
- There will be no change to IFRS 9’s embedded derivative requirements (i.e. bifurcation of financial liabilities only).
- IFRS 9 guidance on presentation of ‘own credit’ gains and losses on financial liabilities will be retained.
- The measurement objective for expected credit losses under the new impairment model has been clarified.
- The measurement objective for ‘bucket 1’ has been clarified as being based on expected losses for those financial assets on which a loss event is expected in the next 12 months.
- The new expected loss impairment model will apply for trade receivables that do not have a significant financing component, including a practical expedient that a provision matrix can be used.
Since November 2008, the IASB has been working to replace its financial instruments standard (IAS 39) with an improved and simplified standard. The IASB initially structured its project to replace IAS 39 in three phases:

- Phase 1: Classification and measurement of financial assets and financial liabilities
- Phase 2: Impairment methodology
- Phase 3: Hedge accounting

In December 2008, the FASB added a similar project to its agenda; however, the FASB has not followed the same phased approach as the IASB and had reached different tentative conclusions from the IASB on classification and measurement and hedging.

The IASB issued IFRS 9 (2009) and IFRS 9 (2010), which contain the requirements for the classification and measurement of financial assets and financial liabilities. Those standards have an effective date of 1 January 2015. The IASB is currently considering limited changes to the classification and measurement requirements of IFRS 9 to address application questions, and to provide an opportunity for the IASB and the FASB (the ‘Boards’) to reduce key differences between their models.

The Boards are also working jointly on a ‘three-bucket’ model for the impairment of financial assets based on expected credit losses – a model which represents a change from the Boards’ previously issued exposure documents.

At the April 2012 meeting, the Boards met jointly to reconsider certain classification and measurement issues and to develop further their ‘three-bucket’ approach to impairment. After a lively discussion, the FASB largely tentatively decided to converge with the IASB on these particular classification and measurement issues, with the IASB leaving those elements of IFRS 9 largely unscathed. In the context of IFRS 9’s business model assessment, the Boards did decide to provide additional guidance on the types of business activities and the frequency and nature of sales that would prohibit financial assets from qualifying for amortised cost measurement. This may help preparers in navigating the current guidance and examples in IFRS 9 about assessing whether a more than infrequent level of sales is consistent with a ‘hold to collect’ business model.

The Boards continued to make progress in developing a common impairment model.
In January 2012, the IASB and the FASB decided to re-deliberate jointly selected aspects of their classification and measurement models for financial instruments, in an effort to reduce key differences. The Boards tentatively decided to discuss the following key differences:

- the contractual cash flow characteristics of financial assets;
- bifurcation of financial assets and, if pursued, the basis for bifurcation;
- the basis for and the scope of a possible third classification category (debt instruments measured at fair value through other comprehensive income); and
- any inter-related issues from the topics above (e.g. disclosures or the model for financial liabilities).

The Boards decided to discuss each issue jointly and consider what changes, if any, they would propose to make to their separate models and incorporate into their respective exposure drafts.

At the April 2012 joint IASB/FASB meeting, the Boards continued their deliberations. Currently, under both IFRS 9 and the FASB’s tentative models, a financial asset is required to meet two tests to be eligible for classification at other than fair value through profit or loss. The first test relates to the entity’s business model and the second test relates to the asset’s cash flow characteristics. At this meeting, the Boards discussed:

- defining the business model for amortised cost classification for financial assets; and
- bifurcation of financial assets and financial liabilities.

(See Appendix: Summary of IASB’s re-deliberations on classification and measurement for a summary of the IASB’s decisions to date on its limited reconsideration of IFRS 9.)

### Defining the business model for amortised cost classification for financial assets

The Boards explored ways to align the business model assessment for the amortised cost classification in IFRS 9 and in the FASB’s tentative model.

Currently, under IFRS 9 a financial asset may qualify for amortised cost classification if it is held within a business model whose objective is to hold assets to collect contractual cash flows.

In contrast, under the FASB’s tentative model a financial asset may qualify for amortised cost classification only if the asset is acquired and managed within a business model that focuses on lending and customer financing activities.

### What did the staff recommend?

The staff proposed three alternatives for the definition of a business model that would qualify for amortised cost classification for financial assets.

1) **Held for collection of contractual cash flows**

   This alternative builds upon the primary objective of holding a financial asset and is consistent with the principle currently in IFRS 9. Under this alternative, the staff also proposed to provide additional guidance on when sales are consistent with a ‘hold to collect’ business model.

2) **Held for collection of contractual cash flows plus factors and indicators**

   This alternative also builds upon the primary objective of holding a financial asset. In addition, it lays out specific factors that an entity would be required to consider when evaluating:
   - whether financial assets are held with the objective of collecting contractual cash flows; and
how the entity expects to realise value from those financial assets.

The factors that an entity would be required to consider are:

- the primary exposure/risk (interest rate, liquidity or credit risk) that the entity is managing and how it is managed;
- how the entity expects to realise the contractual cash flows (for example, a portfolio of assets may be actively managed to earn a return by realising fair value changes arising from changes in credit spreads and yield curves through the sale of such assets; this would be inconsistent with the notion that the assets are held for the objective of collecting contractual cash flows);
- specific indicators (e.g. tenor of the instrument, marketability or liquidity of the instrument and how management compensation is determined); and
- the nature of sales (i.e. whether sales that have occurred out of the portfolio are consistent with the objective of collecting contractual cash flows).

3) Business activity based approach

This alternative is similar to the FASB’s tentative model, and focuses on the business activity through which the financial asset is generated – i.e. only debt instruments that are generated through a lending or customer financing business activity could qualify for amortised cost accounting. Similar to alternative 2, this option also considers the primary exposure/risk that the entity is managing. To qualify for amortised cost measurement, the primary objective would have to be managing credit risk and collecting the cash flows – including having the ability to renegotiate terms in the event of a potential credit loss.

An implication of this alternative would be that certain widely held debt instruments (e.g. sovereign bonds) may not qualify for amortised cost classification because the holder would often not have the ability to negotiate contractual terms with the counterparty.

Under all of the above alternatives, the staff also proposed to retain the following existing requirements in IFRS 9.

- The assessment of the business model is performed at initial recognition.
- The business model assessment is not performed for individual instruments. Rather, the assessment is performed at a higher level of aggregation, which considers the objective of the business model as determined by the entity’s key management personnel. This means that an entity may have more than one business model for managing its financial assets.

What did the Boards decide?

The Boards tentatively decided on alternative 1 – i.e. that financial assets would qualify for amortised cost classification if the assets were held within a business model whose objective was to hold the assets in order to collect contractual cash flows.

The Boards also tentatively decided to clarify the primary objective of ‘hold to collect’, by providing additional implementation guidance on:

- the types of business activities; and
- the frequency and nature of sales

that would prohibit financial assets from qualifying for amortised cost measurement.
Bifurcation of financial assets and financial liabilities

The Boards discussed whether financial assets that do not qualify for amortised cost classification should be:

- classified at fair value in their entirety; or
- considered for bifurcation.

If the latter, then what should be the basis for bifurcation?

IFRS 9 does not permit bifurcation of financial assets; however, the FASB’s previous tentative decisions would have required bifurcation of embedded derivatives that were not closely related. In addition, both the IFRS 9 and FASB models currently require bifurcation of embedded derivatives from financial liabilities if they are not closely related. Hence, the Boards were also asked to consider whether there is a need for symmetry in the classification and measurement of financial assets and financial liabilities.

What did the staff recommend?

The staff proposed three approaches to bifurcating financial instruments.

- No bifurcation.
- Bifurcation methodology based on the ‘solely payments of principal and interest’ concept in IFRS 9 (‘P&I bifurcation’) – i.e. possibly identifying a host contract with cash flows that are solely payments of principal and interest and splitting out other features.
- Bifurcation methodology based on the ‘closely related’ criterion in IAS 39/IFRS 9 (‘closely related bifurcation’) – i.e. identifying a debt or equity host contract and separately accounting for embedded derivatives if they are not ‘closely related’ to the host.

Because different conclusions are possible for financial assets and financial liabilities, the following matrix reflects the nine possible bifurcation combinations.

|  | Financial assets |  |  |
|---|------------------|---|---|---|
|  | No bifurcation | ‘P&I’ bifurcation | ‘Closely related’ bifurcation |
| Financial liabilities |  |  |  |
| No bifurcation | 1 | 2 | 3 |
| ‘P&I’ bifurcation | 4 | 5 | 6 |
| ‘Closely related’ bifurcation | 7 | 8 | 9 |

(consistent with IFRS 9)  
(consistent with the FASB’s tentative model)

Of the above possible combinations, the staff recommended either 1 (most favoured) or 7 (next preferred) for the following reasons.

**Combination 1 – no bifurcation for either financial assets or financial liabilities**

- Reduces complexity in accounting for financial instruments.
- Builds upon the notion of ‘solely principal and interest’ that is already inherent in IFRS 9.
- Results in greater symmetry in accounting for financial assets and financial liabilities.
- Achieves the greatest degree of convergence, by:
  - eliminating the use of the current ‘closely related’ bifurcation requirements, which are different in IFRS and US GAAP; and
– aligning with the cash flow characteristics assessment for financial instruments.

**Combination 7 – no bifurcation for financial assets; bifurcation of financial liabilities based on ‘closely related’ criterion**

- Retains the notion of ‘solely principal and interest’ for financial assets that is inherent in IFRS 9.
- Addresses the issue of own credit risk by bifurcating financial liabilities.
- Retains established practice for bifurcating financial liabilities and hence does not involve the risk of unintended consequences.
- Minimises the change to IFRS 9 and the FASB’s tentative model.
- Eliminates bifurcation of financial assets based on the ‘closely related’ criterion in the FASB’s tentative model and therefore addresses the concerns that such a bifurcation is not aligned to a contractual cash flow characteristics assessment.

**What did the Boards decide?**

The Boards tentatively decided on Combination 7 in the above matrix – i.e. financial assets would not be bifurcated; instead, they would be classified and measured in their entirety either at amortised cost or at fair value through profit or loss. Financial liabilities, on the other hand, would be bifurcated using the existing ‘closely related’ bifurcation requirements currently in IFRS 9 and US GAAP.

In relation to their decision to bifurcate financial liabilities, the IASB also confirmed that the ‘own credit’ guidance in IFRS 9 would be retained. Additional issues on presenting changes in fair value due to ‘own credit’ would have arisen if some hybrid financial liabilities had been required to be measured at fair value in their entirety under a no-bifurcation approach. However, by retaining the bifurcation requirements for financial liabilities, the IASB has avoided having to address such issues. The FASB will discuss ‘own credit’ presentation requirements at a future FASB-only meeting.

**Next steps**

At future meetings on the classification and measurement of financial instruments, the IASB will consider:

- a possible third classification category for financial assets (debt instruments measured at fair value through other comprehensive income) and its application to the insurance industry; and
- transition and disclosures.

The IASB expects to issue an exposure draft on changes to IFRS 9 in the second half of 2012.
The Boards have continued their redeliberations on developing an expected loss impairment model. This is the third attempt by the Boards to define an impairment model based on an expected loss approach, which will replace the current incurred loss model in IAS 39. The Boards originally published their own differing proposals in November 2009 (the IASB) and in May 2010 (the FASB). They next published a joint supplementary document on recognising impairment in open portfolios in January 2011.

The ‘three-bucket approach’ model currently discussed is based on tentative decisions reached following the issue of the joint supplementary document. The diagram below summarises the Boards’ tentative decisions on the three-bucket impairment model prior to the April 2012 meeting.

Prior to April 2012, the Boards had also discussed how the expected loss model might be applied to trade receivables (as summarised below) – although at that time the Boards had not decided whether an expected loss model should be applied to trade receivables without a significant financing component.

The following sections summarise discussions and decisions made at the April 2012 meeting.
Clarification of expected credit loss estimates

The three-bucket impairment model includes two impairment allowance measurement objectives based on expected credit losses:

- for bucket 1 – 12 months of expected credit losses; and
- for buckets 2 and 3 – lifetime expected credit losses.

The Boards’ discussion in April 2012 focused on clarifying the objective of expected credit losses described above to address concerns raised regarding the use of the term ‘expected value’.

What did the staff recommend?

The staff proposed that estimates of expected credit losses should possess the following attributes.

<table>
<thead>
<tr>
<th>Proposed attributes</th>
<th>Key points raised by Board members</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
<td>An estimate of expected credit losses is required to reflect the following.</td>
</tr>
<tr>
<td>a</td>
<td>All reasonable and supportable information considered relevant in making the forward-looking estimate.</td>
</tr>
<tr>
<td></td>
<td>Some Board members questioned what ‘reasonable’, ‘supportable’ and ‘considered relevant’ actually meant when applied, since the meanings of the words are interchangeable and could be misinterpreted in translations.</td>
</tr>
<tr>
<td>b</td>
<td>A range of possible outcomes that considers the likelihood and reasonableness of those outcomes (that is, it is not merely an estimate of the ‘most likely outcome’).</td>
</tr>
<tr>
<td></td>
<td>The discussion made clear that the key point is that more than one outcome of expected cash flows should be considered. Estimates need to consider the likelihood of default. However, this does not mean that an entity has to perform a complex statistical analysis and calculate a full probability-weighted expected loss estimate. For example, an estimate of expected credit losses might reflect at least the probability of default (e.g. 2%) and the probability of collecting all contractual cash flows (e.g. 98%).</td>
</tr>
<tr>
<td>c</td>
<td>The time value of money.</td>
</tr>
<tr>
<td><strong>2</strong></td>
<td>In estimating expected credit losses, a reporting entity considers information that is reasonably available without undue cost and effort.</td>
</tr>
</tbody>
</table>

What did the Boards decide?

The IASB and the FASB agreed with the proposed attributes for estimates of expected credit losses set out above. However, the staff were asked to clarify further attribute 1(a).
Clarification of the bucket 1 measurement approach

The measurement objective of bucket 1 has been defined in previous meetings as 12 months of expected credit losses. The tentative decision of the December 2011 meeting was that the losses for bucket 1 “are not just the cash shortfalls over the next 12 months, but also the lifetime expected losses on the portion of financial assets on which a loss event is expected over the next 12 months.” This issue was brought again to the Boards because the staff received a number of questions from constituents regarding the bucket 1 measurement objective.

What approaches did the staff propose?

The staff proposed the following three approaches to clarify the bucket 1 measurement objective:

A. Expected losses for the portion of financial assets on which a loss event is expected over the next 12 months
B. 12 months’ expected credit losses
C. Expected losses for those financial assets on which a loss event is expected in the next 12 months

<table>
<thead>
<tr>
<th>Proposed clarified bucket 1 measurement objective</th>
<th>Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Two step approach:</td>
<td>An entity would be able to define ‘loss event’ in a variety of ways, including:</td>
</tr>
<tr>
<td>• Identify a portion of the portfolio upon which a ‘loss event’ is expected in the next 12 months</td>
<td>• transfer from bucket 1;</td>
</tr>
<tr>
<td>• Measure the expected losses related to the financial assets identified in the first step</td>
<td>• payment default or reaching a certain number of days past due status; or</td>
</tr>
<tr>
<td></td>
<td>• default as defined by regulatory frameworks such as Basel (i.e. 90 days past due).</td>
</tr>
<tr>
<td></td>
<td>An entity would then measure expected losses that would be ultimately realised as a result of those loss events occurring. This approach would not explicitly include the word ‘lifetime’ in the description of the losses that would be measured, and this could make it less clear. It may also be open to misinterpretation – for example, that expected losses should only be included on assets where there is a 100 percent probability of a loss event occurring in next 12 months.</td>
</tr>
<tr>
<td>B One step approach:</td>
<td>Approach B would articulate the measurement objective in more general terms. Under this approach, the application guidance would include illustrative examples of acceptable techniques.</td>
</tr>
<tr>
<td>• 12 months’ expected credit losses</td>
<td></td>
</tr>
<tr>
<td>C Two step approach:</td>
<td>Approach C is similar to approach A, but:</td>
</tr>
<tr>
<td>• Determine probability of a loss event taking place in the next 12 months</td>
<td>• it would explicitly include the word ‘lifetime’ in the description of the losses to be measured; and</td>
</tr>
<tr>
<td>• Measure all cash shortfalls expected over the full lifetime that are associated with this probability</td>
<td>• unlike approach A, it would not allow a transfer from bucket 1 to be a loss event. This approach refers to “the probability (or likelihood) of a loss event occurring in 12 months”.</td>
</tr>
</tbody>
</table>
What did the Boards decide?

All IASB members and the majority of FASB members favoured approach C. The Boards therefore decided that the measurement approach for bucket 1 should be ‘expected losses for those financial assets on which a loss event is expected in the next 12 months.’

In explaining the bucket 1 approach, the Boards indicated the following points.

- Expected losses are all cash shortfalls expected over the lifetime of the financial asset that are associated with the likelihood of a loss event in the next 12 months. That means that the losses being measured are not only the cash shortfalls over the next 12 months.

- Estimating lifetime losses should not require a detailed estimate for periods far in the future, but the degree of detail necessary in forecasting estimated losses decreases as the forecast period increases.

- Various approaches can be used to estimate the expected losses, including approaches that do not include an explicit ‘12 month probability of a loss event’ as an input.

Agreement on an expected loss model for trade receivables without a significant financing component

Feedback from current practice

The Boards asked the staff in their February meeting to evaluate whether an expected loss impairment model would be operational for trade receivables without a significant financing component (as defined in the revenue recognition exposure draft). Subject to deciding whether an expected loss model should be applied to these trade receivables, the Boards had tentatively decided in their February meeting how an expected loss model would be applied.

The staff explained that outreach participants had indicated that they found it challenging to identify loss events for trade receivables other than simply on the basis of payment delinquencies. Therefore, many entities use a provision matrix to estimate their incurred credit losses on a portfolio of trade receivables. Outreach participants indicated that they would not have significant operational difficulty in applying an expected loss approach to their trade receivables without a significant financing component; this is because they would be able to incorporate forward-looking information within their current methodologies.

What did the staff recommend?

The staff proposed two alternative impairment models for trade receivables without a significant financing component:

A. Expected loss credit impairment model, including a practical expedient that a provision matrix can be used

B. Incurred loss credit impairment model

The staff recommended approach A.

What did the Boards decide?

All IASB and FASB members agreed with the staff recommendation that:

- an expected loss approach should be applied to trade receivables without a significant financing component; and

- a provision matrix may be used as a practical expedient.
Next steps

The staff explained that based on the Boards’ decisions made so far, the general framework of the expected credit loss measurement model was now complete. However, future meetings on the impairment of financial assets will consider the following:

- application to off-balance sheet items, including loan commitments and financial guarantees;
- disclosure requirements;
- transition requirements;
- any knock-on effects resulting from future decisions in the classification and measurement project (e.g. debt securities); and
- selected issues to be considered separately by each Board in order to address their respective stakeholders’ concerns.

The re-exposure date of the impairment proposals has been revised and is now expected to be the second half of 2012.
General hedging
The release of the IASB’s review draft of the final general hedge accounting model has been delayed and is now scheduled for the second quarter of 2012. The draft is to be available for a period of approximately 90 days, following which the final standard is expected to be issued in the second half of 2012. During this 90-day period, the IASB plans to undertake an extended fatal flaw process and additional outreach. This also allows the FASB the opportunity to consider the IASB’s proposals. The IASB will not be formally asking for comments on the draft.

Macro hedging
In February and March 2012, the IASB discussed macro hedge accounting with a focus on the valuation of the risk position and accounting for the net portfolio valuation approach. During the March meeting, the IASB staff provided an analysis of how a net valuation approach for macro hedging could be applied to core demand deposits. Further details of the model are eagerly awaited, given banks’ common practice of managing their interest rate risk on an open portfolio basis. No decisions were made. An exposure draft or discussion paper is scheduled for the second half of 2012.
The current work plan anticipates significant progress in 2012, which will be necessary to maintain an effective date of 1 January 2015.

Our suite of publications considers the different aspects of the work plan, and provides a comparison to IAS 39 where relevant.

<table>
<thead>
<tr>
<th>KPMG publications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First Impressions: IFRS 9 Financial Instruments (December 2009)</strong></td>
</tr>
<tr>
<td>• For KPMG’s most recent and comprehensive views on IFRS 9, refer to Insights into IFRS: Chapter 7A – Financial</td>
</tr>
<tr>
<td>instruments: IFRS 9.</td>
</tr>
<tr>
<td><strong>First Impressions: Additions to IFRS 9 Financial Instruments (December 2010)</strong></td>
</tr>
<tr>
<td>• For KPMG’s most recent and comprehensive views on IFRS 9, refer to Insights into IFRS: Chapter 7A – Financial</td>
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<td>instruments: IFRS 9.</td>
</tr>
<tr>
<td><strong>In the Headlines: Amendments to IFRS 9 – Mandatory effective date of IFRS 9 deferred to 1 January 2015</strong></td>
</tr>
<tr>
<td>(December 2011)</td>
</tr>
<tr>
<td><strong>New on the Horizon: ED/2009/12 Financial Instruments: Amortised Cost and Impairment (November 2009)</strong></td>
</tr>
<tr>
<td><strong>New on the Horizon: Impairment of financial assets measured in an open portfolio (February 2011)</strong></td>
</tr>
<tr>
<td><strong>New on the Horizon: Hedge Accounting (January 2011)</strong></td>
</tr>
<tr>
<td><strong>First Impressions: Offsetting financial assets and financial liabilities (February 2012)</strong></td>
</tr>
</tbody>
</table>

For more information on the project see our [website](#).

The IASB’s [website](#) and the FASB’s [website](#) contain summaries of the Boards’ meetings, meeting materials, project summaries and status updates.
## APPENDIX: SUMMARY OF IASB’S REDELIBERATIONS ON CLASSIFICATION AND MEASUREMENT

<table>
<thead>
<tr>
<th>What did the IASB discuss?</th>
<th>What did the IASB tentatively decide?</th>
<th>Is there an identified change to IFRS 9? If yes, then what?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business model assessment for amortised cost classification for financial assets</strong></td>
<td>A financial asset would qualify for amortised cost classification if it was held within a business model whose objective was to hold the assets in order to collect contractual cash flows. (April 2012)</td>
<td>To clarify the primary objective of ‘hold to collect’, the Boards will provide additional implementation guidance on the types of business activities and the frequency and nature of sales that would prohibit financial assets from qualifying for amortised cost measurement.</td>
</tr>
<tr>
<td><strong>Proposed approach to the contractual cash flows characteristics assessment</strong></td>
<td>A financial asset could qualify for a measurement category other than fair value through profit or loss (FVTPL) if its contractual terms gave rise, on specified dates, to cash flows that were solely payments of principal and interest on the principal amount outstanding (P&amp;I). (February 2012)</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>‘Interest’ is consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. (February 2012)</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>‘Principal’ is understood as the amount transferred by the holder on initial recognition. (February 2012)</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>If a financial asset contains a component other than principal and interest, then it is required to be measured at FVTPL. (February 2012)</td>
<td>No</td>
</tr>
<tr>
<td><strong>Assessment of economic relationship between P&amp;I</strong></td>
<td>If a financial asset only contains components of principal and interest, but the relationship between them is modified, then an entity needs to consider the effect of the modification when assessing whether the cash flows on the financial asset are solely P&amp;I. (February 2012)</td>
<td>Yes – this is an amendment to the application guidance in IFRS 9. The IASB believes that this change will address application issues that have arisen in the application of IFRS 9.</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>What did the IASB discuss?</th>
<th>What did the IASB tentatively decide?</th>
<th>Is there an identified change to IFRS 9? If yes, then what?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessment of economic relationship between P&amp;I (continued)</td>
<td>An entity would need to compare the financial asset under assessment to a benchmark instrument that contained cash flows that were solely P&amp;I in order to assess the effect of the modification in the economic relationship between P&amp;I. An appropriate benchmark instrument would be a contract of the same credit quality and with the same terms, except for the contractual term under evaluation. (February 2012)</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>If the difference between the cash flows of the benchmark instrument and the instrument under assessment is more than insignificant, then the instrument is required to be measured at FVTPL; this is because its contractual cash flows are not solely P&amp;I. (February 2012)</td>
<td></td>
</tr>
<tr>
<td>Contingent cash flows</td>
<td>A contractual term that changes the timing or amount of payments of P&amp;I would not preclude the financial asset from a measurement category other than FVTPL. This is true as long as any variability only reflects the change in the time value of money and the credit risk of the instrument. (February 2012)</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>The probability of contingent cash flows that are not solely P&amp;I should not be considered. Financial assets that contain contingent cash flows that are not solely P&amp;I are required to be measured at FVTPL. There is an exception only for extremely rare scenarios. (February 2012)</td>
<td>No</td>
</tr>
<tr>
<td>Prepayment and extension options</td>
<td>A prepayment or extension option, including those that are contingent, does not preclude a financial asset from a measurement category other than FVTPL. This is true as long as these features are consistent with the notion of solely P&amp;I. (February 2012)</td>
<td>No</td>
</tr>
<tr>
<td>Bifurcation of financial assets and financial liabilities</td>
<td>Financial assets that contain cash flows that are not solely P&amp;I would not be eligible for bifurcation. Instead, they would be classified and measured in their entirety at FVTPL. (April 2012)</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Financial liabilities would be bifurcated using the existing ‘closely related’ bifurcation requirements currently in IFRS 9 and US GAAP (April 2012)</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>The IASB also confirmed that the ‘own credit’ guidance in IFRS 9 would be retained. (April 2012)</td>
<td>No</td>
</tr>
</tbody>
</table>
Acknowledgements

We would like to acknowledge the efforts of the principal authors of this publication: Nicolle Pietsch, Robert Sledge, and Sze Yen Tan.