Australian Government
Department of Finance

AASB 9 *Financial Instruments*

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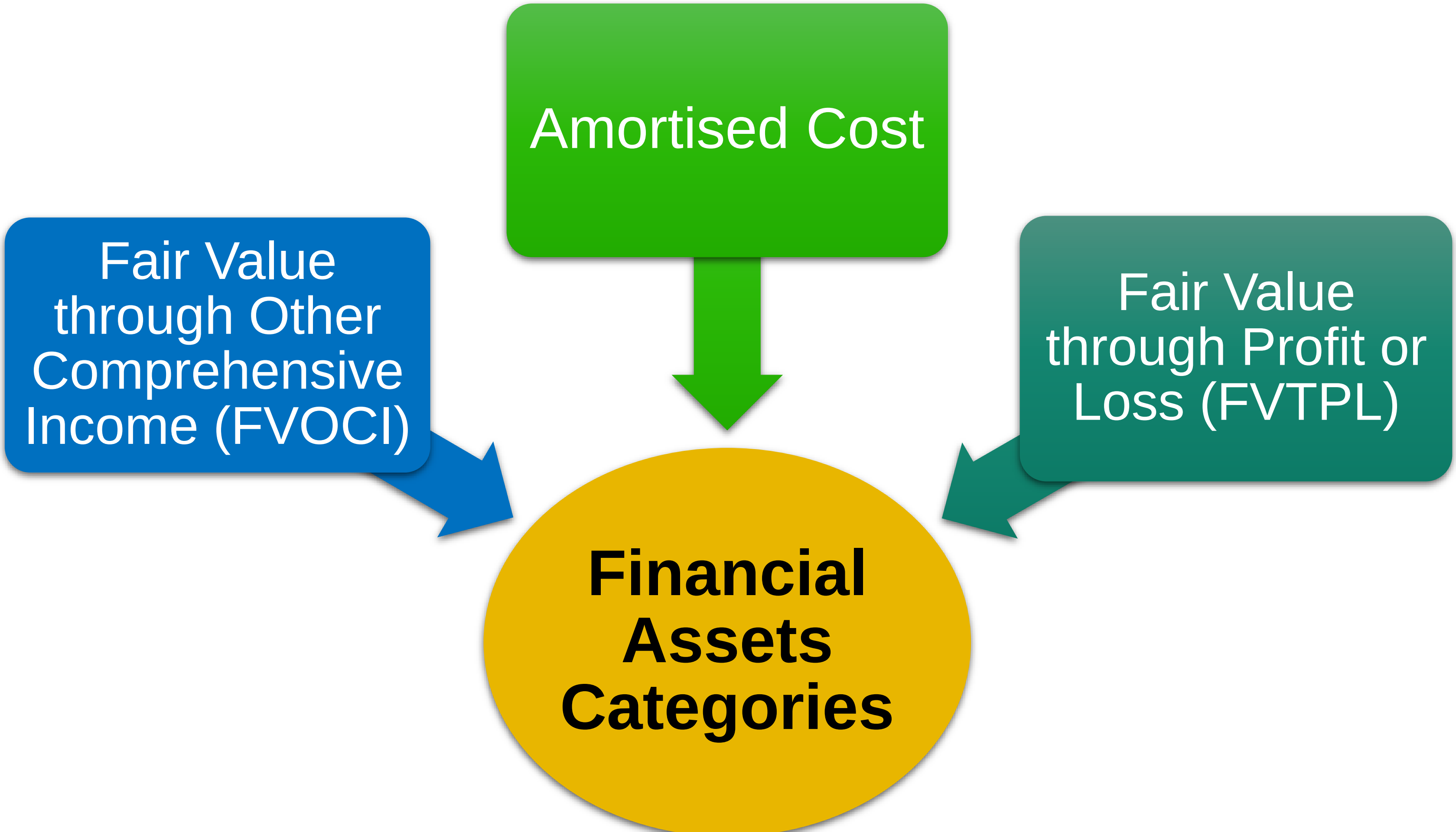
AASB 9 Workshop Program

- Welcome
- ‘Available-for-Sale’ Financial Assets Reclassification
- Coffee Break (5 mins)
- New Impairment Model
- Agencies: Other Implementation Issues
- Agencies: Implementation Status (form collected)

New Financial Assets Classification



New Financial Assets Classification

Eliminated

- Available-for-sale

Removed

- Financial assets designated at FVTPL based on 'managed on a fair value' basis

Retained

- Effective interest method for financial assets/liabilities at amortised cost

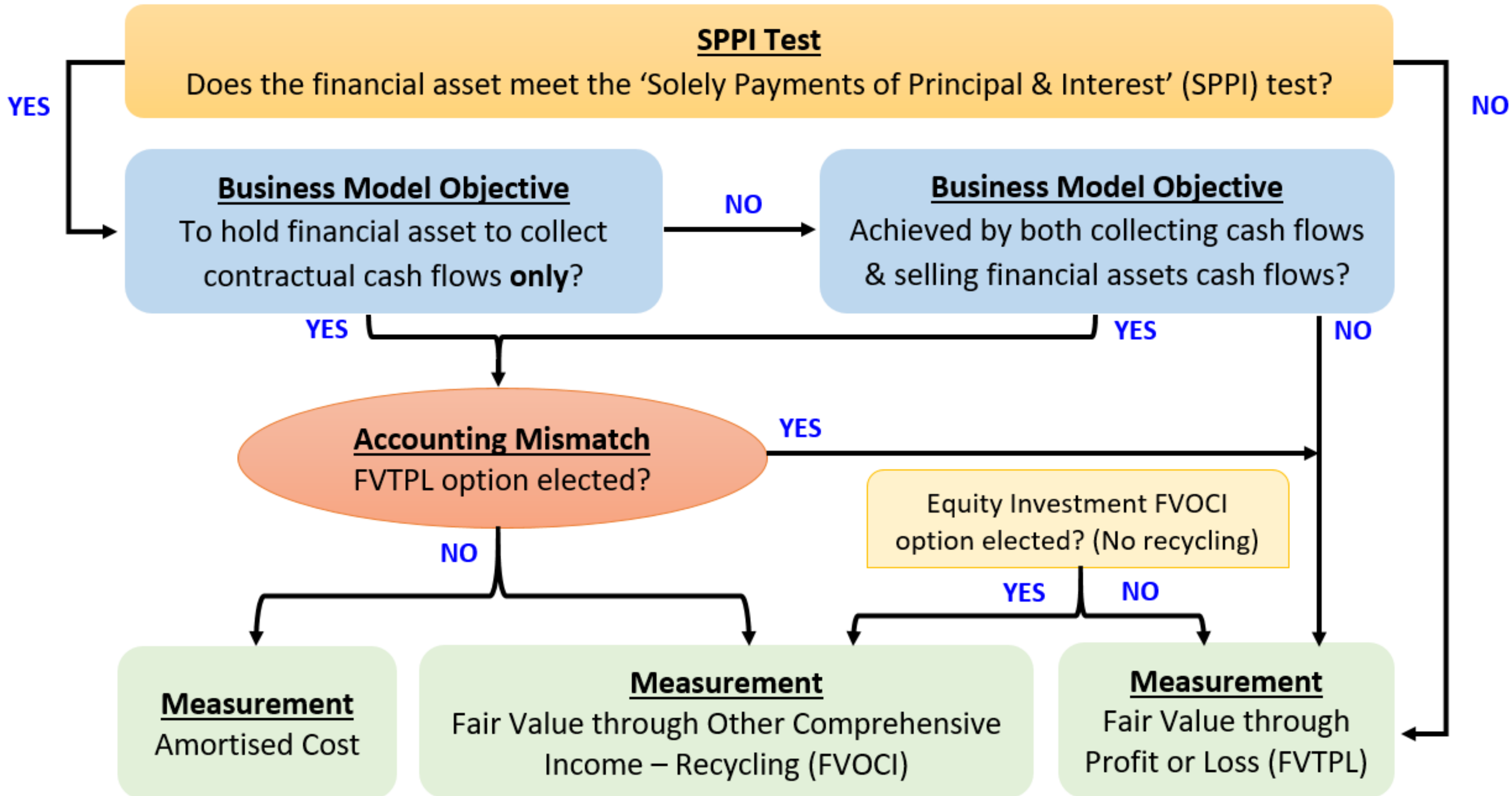
Available-for-Sale Financial Assets Reclassification

Solely payments of principal & interest (SPPI)?

Business model objective?

Accounting mismatch?

AASB 9 Financial Assets Classification




a quick
Coffee
Break

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New Impairment Model

New Impairment Model - AASB 9 vs AASB 139

AASB 9 Expected Credit Loss Model (ECL)	AASB 139 Incurred Loss Model
ECLs are recognised at each reporting period, even if no actual loss events have taken place	Delays the recognition of credit losses until there is objective evidence of impairment
In addition to past events & current conditions, **forward-looking** info without undue cost or effort is also considered	Only past events & current conditions are considered
One model which applies to all financial instruments	Different impairment models for different financial instruments

New Impairment Model - Scope

NEW!

Debt instruments measured at Amortised Cost or FVOCI

Financial guarantee contracts (not designated at FVTPL)

NEW!

Loan commitments (not measured at FVTPL)

Lease receivables (within the scope of AASB117 / AASB16)

NEW!

Contract assets (as defined in AASB15, not effective until 2019-20)

AASB 9 Transition - Impairment

General Principle

- Impairment requirements are to be applied retrospectively

Requirement

- Entities shall determine the credit risk (CR) at the date the instrument was initially recognised, and compare that to the CR at DIA of AASB 9

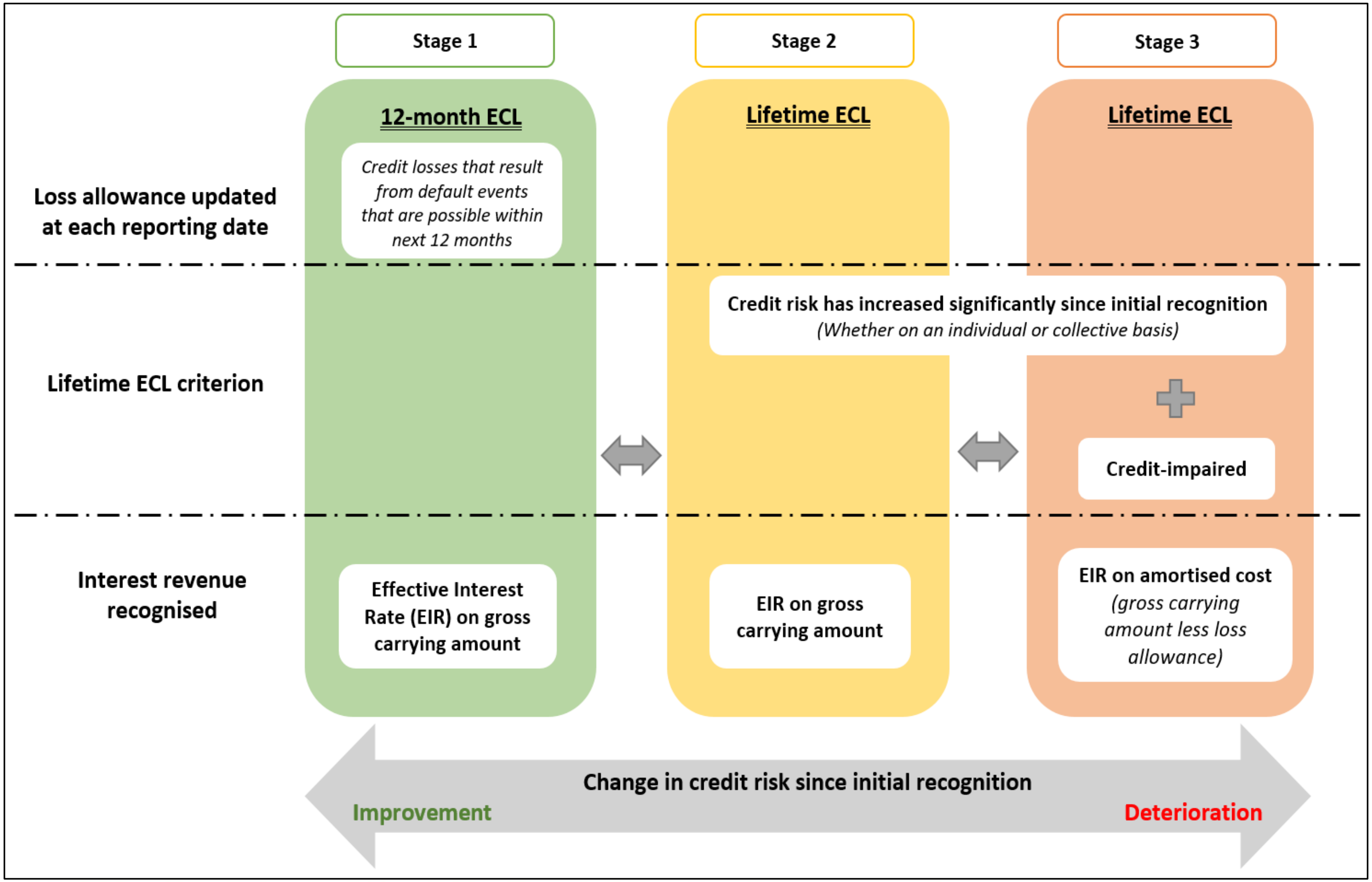
Exemption

- An entity shall recognise lifetime ECL where it will incur undue cost or effort in determining the change in credit risk since initial recognition

Approach

- General Approach – 3 Stage Model
- Simplified Approach – Lifetime ECL Model
- Credit adjusted Approach *(largely consistent with AG5 of AASB 139)*

General Approach - 3 Stage Model



General Approach - 3 Stage Model

Determining Significant Increases in Credit Risk

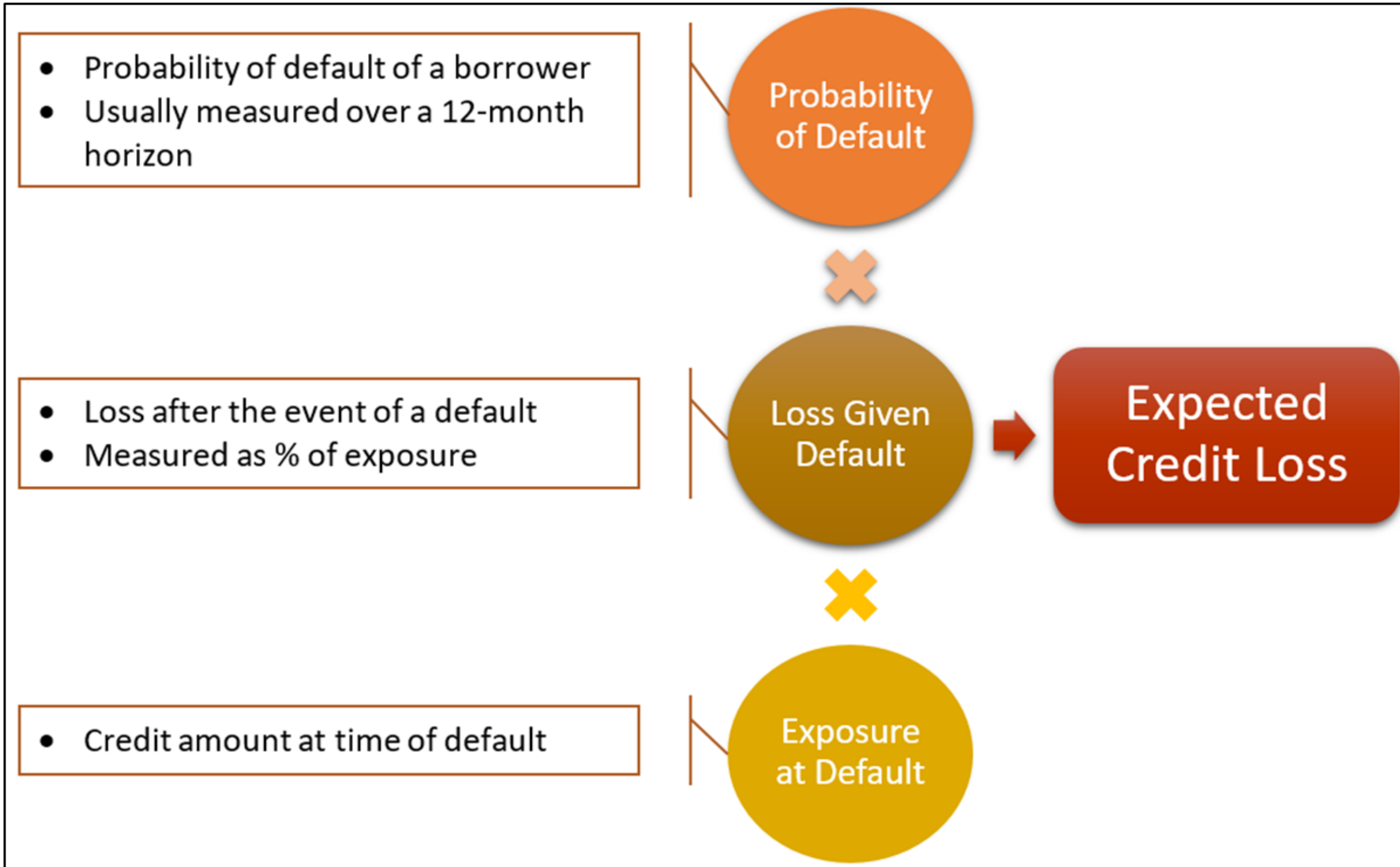
The focus is on the **changes in the risk of a default**, not the changes in the amount of ECL.

*For example, for highly collateralised financial assets such as real estate backed loans, when a borrower expected to be affected by the downturn in its local economy with a consequent increase in credit risk, that loan would move from Stage 1 to **Stage 2**, even though the actual loss suffered may be small because the lender can recover most of the amount due by selling the collateral.*

AASB 9 (B5.5.17) sets out guidance to assist entities in assessing changes in credit risk.

General Approach - 3 Stage Model

There are 3 key parameters to measure expected loss



General Approach - 3 Stage Model

Various sources of data need to be considered in estimating ECL

Borrower specific factors

Macroeconomic conditions

Internal & external info (such as internal historical credit loss experience, internal rating, external reports & statistics)

Simplified Approach - Lifetime ECL Model

Apply for trade receivables, lease receivables & contract assets that ***DO NOT*** *contain a significant financing component.*

Trade Receivables, Lease Receivables & Contract Assets

Simplified Approach

Lifetime ECL

Loss Allowance

For **short-term receivables**
(maturities<12mths)
both general & simplified approaches would lead to the same result

Credit Adjusted Approach

This approach applies to the credit impaired assets at initial recognition (e.g. loans acquired at a deep discount due to their credit risk).

The accounting for purchased or originated credit-impaired assets is largely consistent with AG5 of AASB 139.

Illustrative Example – Trade Receivables

- Entity A has a portfolio of trade receivables of $30 million at 30/06/2014;
- The debtors are consists of a large number of small clients;
- Entity uses a provision matrix to determine the ECLs for the portfolio;
- The provision matrix is based on its historical observed default rates *(updated at every reporting date)*, adjusted for forward looking estimates.

Entity A - Provision Matrix as at 30/06/2014			
	Expected Default Rates (A)	**Gross Carrying Amount** (B)	**Credit Loss Allowance** (A)×(B)
Current	0.3%	$15,000,000	$45,000
1-30 days past due	1.6%	$7,500,000	$120,000
31-60 days past due	3.6%	$4,000,000	$144,000
61-90 days past due	6.6%	$2,500,000	$165,000
> 90 days past due	10.6%	$1,000,000	$106,000
		$30,000,000	**$580,000**

Illustrative Example – Trade Receivables (Con'd)

At 30/06/2015, entity A revises its forward looking estimates, which include a deterioration in general economic condition. It has a portfolio of trade receivables of $34 million in 2015.

Entity A - Provision Matrix as at 30/06/2015			
	Expected Default Rates (A)	Gross Carrying Amount (B)	Credit Loss Allowance (A)×(B)
Current	0.5%	$16,000,000	$80,000
1-30 days past due	1.8%	$8,000,000	$144,000
31-60 days past due	3.8%	$5,000,000	$190,000
61-90 days past due	7.0%	$3,500,000	$245,000
> 90 days past due	11.0%	$1,500,000	$165,000
		$34,000,000	$824,000

Illustrative Example – Trade Receivables (Con'd)

The credit loss allowance is increased by **$244,000** from **$580,000** at 30/06/2014 to **$824,000** as at 30/06/2015.

The journal entry at 30/06/2015 would be:

	DR	CR
Expected credit losses	244,000	
Credit loss allowance		244,000


QUESTIONS?
COMMENTS?
CONCERNS?