

FINANCIAL INSTRUMENTS

The Acclaimed Mother of All Standards

Effective 1 January 2010



OVERVIEW

The long awaited standard is here....finally. International Accounting Standard ("IAS") 39 Financial Instruments: Recognition and Measurement has been in existence since year 1999 before it takes its poise in Malaysia. The due process to adopt IAS 39 (known as **Financial Reporting Standard ("FRS") 139** in Malaysia) has been strenuous before the Malaysian Accounting Standards Board ("MASB") sets its foot down to announce the **effective date to be applicable for financial period beginning on or after 1 January 2010**.

There is an array of projects planned by MASB to align its standards to fully converge with the International Accounting Standards Board ("IASB") standards by 1 January 2012. For FRSs relating to financial instruments, the following 3 standards have been issued, namely:

- **FRS 7 on disclosures**
- **FRS 132 on presentation**
- **FRS 139 on recognition and measurement**

In addition to the above standards, MASB has on 7 December 2009, issued an Exposure Draft ("ED") 69 to expose International Financial Reporting Standard ("IFRS") 9 Financial Instruments which was published by the IASB on 12 November 2009. This ED expires on 23 December 2009.

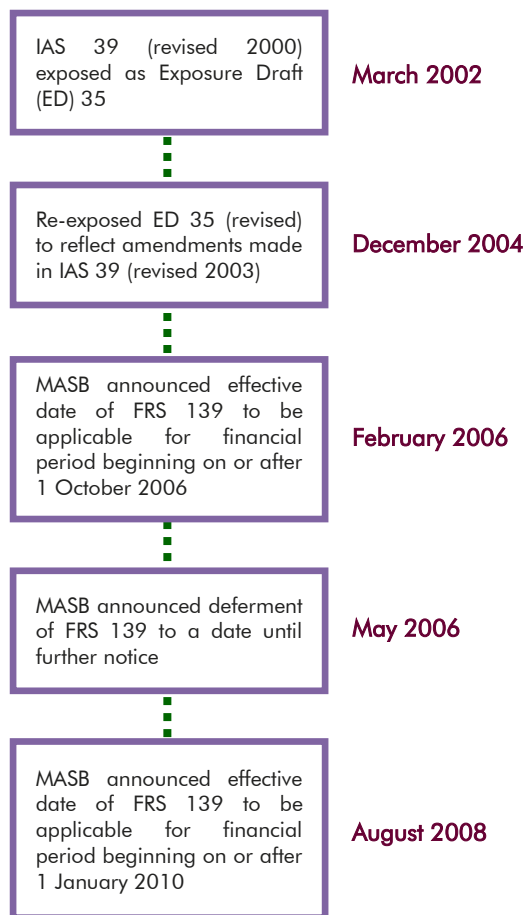
IFRS 9 is the result of the completion of Phase 1 (out of 3 phases) of a current IASB project to replace IAS 39. More on the future development of the financial instruments standard will be dealt with in the following section of this publication.

The due process to adopt IAS 39 (known as FRS 139 in Malaysia) has been strenuous before the Malaysian Accounting Standards Board sets its foot down to announce the effective date... 1 Jan 2010

History of FRS 139

IAS 39 (revised 2000) was exposed in Malaysia way back in year 2002. Due to the ongoing revision at the IASB level, a revised Exposure Draft (“ED”) was re-exposed to reflect IAS 39 (revised 2003) in December 2004. This ED was subsequently finalized and issued as FRS 139 in February 2006. The effective date was set to be applicable for financial period beginning on or after 1 October 2006.

In May 2006, however, MASB made an announcement to defer the effective date of FRS 139. It was until August 2008 when MASB confirmed that the much acclaimed mother of all standards, FRS 139, will take effect for financial period beginning on or after 1 January 2010.



Chronology of events – FRS 139 Adoption in Malaysia

History of FRS 7 and FRS 132

FRS 132 Financial Instruments: Presentation and Disclosure was effective in Malaysia for financial period beginning on or after 1 January 2006. This was despite the fact that MASB has announced a deferment of the effective date for FRS 139. This earlier version of FRS 132 applicable for financial period beginning on or after 1 January 2006 is identical to the IASB’s IAS 32 (revised in December 2003).

In August 2005, the IASB amended IAS 32 by relocating all disclosures relating to financial instruments to International Financial Reporting Standard (“IFRS”) 7 Financial Instruments: Disclosures with the aim to remove duplicative disclosure and eliminate internal inconsistencies. This move gave rise to the segregation of IAS 32 into 2 separate standards i.e. IFRS 7 Financial Instruments: Disclosures and IAS 32 Financial Instruments: Presentation. IFRS 7 supersedes the disclosure requirements of IAS 32 whilst the remaining parts of IAS 32 deal only with financial instrument presentation matters.

The MASB has consequently followed the IASB’s step and had exposed IFRS 7 as Exposure Draft (“ED”) 56 in July 2007. ED 56 was subsequently issued as FRS 7 in November 2008. **FRS 7 will supersede disclosure requirement contained in FRS 132 and will be applicable for financial period beginning on or after 1 January 2010.**

The key features of FRS 139, FRS 132 and FRS 7 will be covered in this publication.

What Is the Future of Financial Instruments Accounting Standards?

Replacing IAS 39

In response to the call from the leaders of the G20 countries to reduce the complexity of accounting standards for financial instruments and to converge towards a single set of high quality, global, independent accounting standards on financial instruments, the IASB has been working with the United States of America's Financial Accounting Standards Board ("FASB") to reach convergence between the IFRSs and U.S.A's generally accepted accounting principles ("GAAP"). Consequently, the IASB aims to replace all requirements in IAS 39 during 2010.



The tentative project plan for the replacement of IAS 39 consists of three main phases:

Phase 1 – Classification and measurement

On 12 November 2009, the IASB published IFRS 9 Financial Instruments on the classification and measurement of financial assets. IFRS 9 is to be applicable for annual periods beginning on or after 1 January 2013 with an option for early application. IFRS 9 works on the premise of two measurement category approach i.e. fair value or amortised cost. (Note that MASB has exposed this document as ED 69 on 7 December 2009).

Phase 2 – Impairment methodology

In June 2009, IASB published a Request for Information on the feasibility of an expected loss model for impairment of financial assets. In November 2009, the IASB issued an exposure draft entitled Financial Instruments: Amortised Cost and Impairment. The exposure draft is opened for comment until 30 June 2010.

Phase 3 – Hedge accounting

The IASB is currently conducting outreach with its constituents and intends to issue an exposure draft on hedge accounting in the first quarter 2010.

Impact on Malaysia

The above projects are inevitably going to impact Malaysia in view of the commitment to converge with the international standards by 1 January 2012. It is a matter of time before the current version of the Malaysia's financial instruments accounting standards (applicable for financial period beginning on or after 1 January 2010) to be revised to converge with the international developments that have taken place and those that are currently taking place.

This is evident from the Exposure Draft issued by MASB to adopt IFRS 9 issued by the IASB though the effective date for this standard (entitled FRS 9 upon finalization) has not been announced.

IFRS 9 sets to override some principles relating to classification and measurement of financial assets enunciated in FRS 139 and resulted in consequential amendments to FRS 7 and FRS 132 applicable for the financial period beginning on or after 1 January 2010.

A brief description of IFRS 9 is included in this publication.

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FRS 139

Financial Instruments |

Recognition and Measurement

(effective for financial period beginning on or after 1 January 2010)

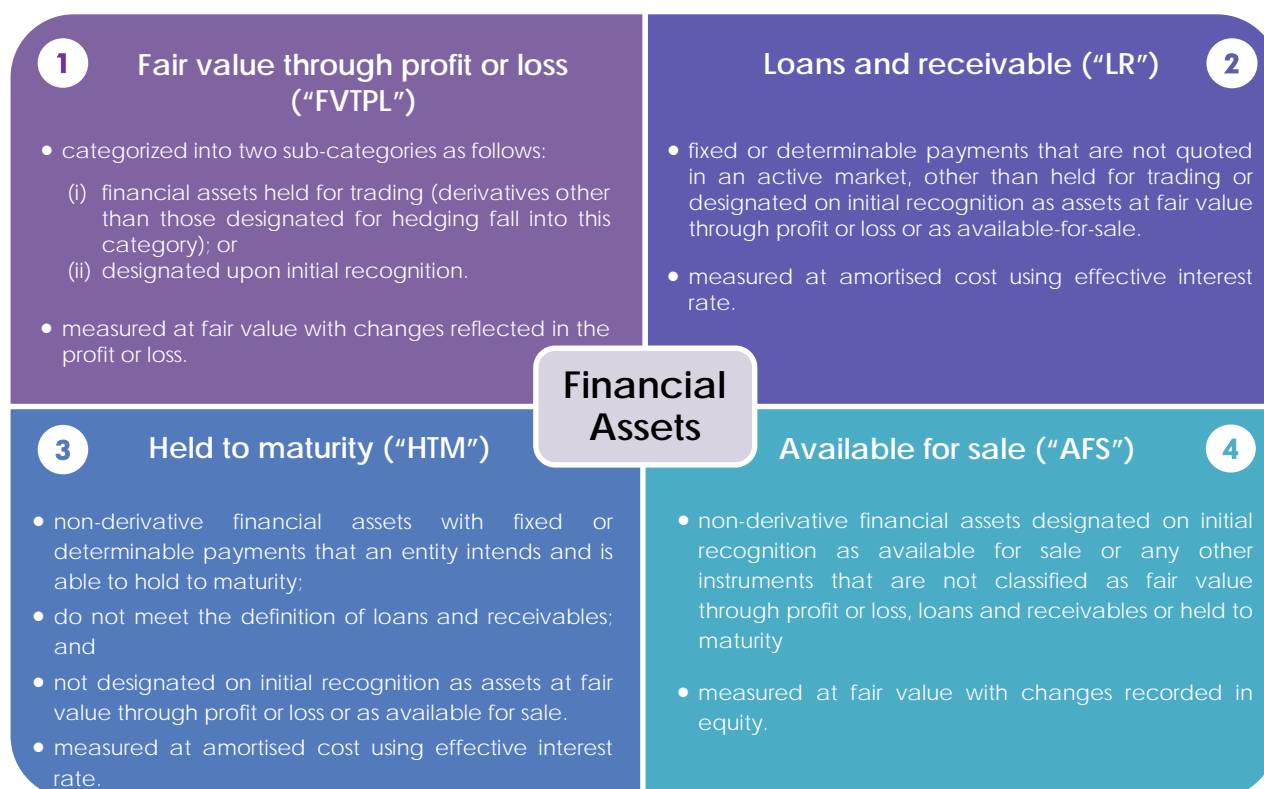
Affected Entities

FRS 139 applies to all entities other than a private entity¹ in Malaysia for financial beginning on or after 1 January 2010. The term financial instruments cover both financial assets and financial liabilities. For example trade receivables, payables, bank, intercompany balances, loans and debts fall within the scope of the Standard. The Standard also results in the recognition of items that were off-balance sheet prior to the application of FRS 139 which include derivatives such as forward, futures, options; and financial guarantees. Most companies are under the wrong impression that this Standard only applies to the financial institutions, whereas this is not the case.

Key Features of FRS 139

Category of Financial Assets and Financial Liabilities

Financial assets are classified into **one of the four categories** below:



¹A private entity is defined as a private company, incorporated under the Companies Act 1965, that:

- Is not itself required to prepare or lodge any financial statements under any law administered by the Securities Commission or Bank Negara Malaysia; and
- Is not a subsidiary or associate of, or jointly controlled by, an entity which is required to prepare or lodge any financial statements under any law administered by the Securities Commission or Bank Negara Malaysia.

An entity may only be treated as a private entity in relation to such annual periods or interim periods throughout which it is a private entity.

Financial liabilities are classified into one of the two categories below:

1. Fair value through profit or loss

- categorized into two sub-categories as follows:
 - (i) held for trading; or
 - (ii) designated upon initial recognition.
- measured at fair value with changes reflected in the profit or loss.

Financial Liabilities

2. Other financial liabilities

- measured at amortised cost using effective interest method.



Reclassifications of Financial Assets

FRS 139 allows **limited reclassification between categories of financial assets** as follows:

- **Out of HTM**

The HTM category is tainted when an entity sold or reclassified more than an insignificant amount of HTM investment before maturity during the financial year or during the two preceding financial years. As a result of a change in the intention or ability, the standard requires all financial assets classified as HTM to be reclassified as AFS and re-measured at fair value.

- **Out of FVTPL**

A reclassification of derivative out of FVTPL is prohibited. The standard only permits a reclassification of non-derivative financial assets (other than those designated at FVTPL upon initial recognition) out of FVTPL. A financial asset (had it not been required to be classified as held for trading) that meet the definition of LR may be reclassified out of FVTPL if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

- **From AFS to LR**

A transfer from AFS to LR is permitted if the financial assets transferred meet the definition of loans and receivables had it not been designated as AFS and if the entity has the intention and ability to hold the financial asset for the foreseeable future.

In the event of reclassification, additional disclosures are required under FRS 7.



Investment in Unquoted Equity Instrument

FRS 139 requires a financial asset or a financial liability to be measured at its fair value on initial recognition and to be subsequently measured in accordance with the measurement rule prescribed for the respective category of financial assets and financial liabilities. Investment in equity instruments qualifies to be categorized as FVTPL or AFS as appropriate and therefore should be measured at fair value.

FRS 139 however provides exception for cost to be used to measure investment in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. When investment in unquoted equity instruments is measured at cost, FRS 7 establishes extensive disclosure requirements to be made in the financial statements to assist users of financial statements to make judgement about the extent of possible differences between the carrying amounts of those financial assets.

Embedded Derivatives

FRS 139 requires the separation of the derivative embedded in a combined (hybrid) instrument from the host contract for recognition if the economic characteristics and risk associated with the embedded derivative are not closely related with

the host contract; a separate instrument similar in terms with the embedded derivative would meet the definition of a derivative; and the hybrid instrument is not categorized as FVTPL.

If the entity is unable to measure the embedded derivative separately, the entire combined contract must be designated as FVTPL.

Impairment

FRS 139 requires assessment to be carried out at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. This assessment is required to be carried out for all financial assets under category AFS, LR, and financial assets carried at cost. Objective evidence of impairment includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment. FRS 139 states that a significant or prolonged decline in fair value of an investment in equity instruments below its cost is an objective evidence of impairment. What is "significant" or "prolonged" varies in the context of different sentiment and is subject to wide interpretation.

The assessment of whether there is an objective evidence of impairment is a judgemental process. Indicators when a financial asset may be impaired include:

- Significant financial difficulty of the issuer
- Significant financial difficulty of the issuer
- Default or breach of contract
- Granting of a concession by the lender
- Bankruptcy or financial reorganisation of the borrower
- Disappearance of an active market for the assets concerned
- Measurable decrease in the estimated future cash flows.

Hedge Accounting is a Privilege Earned, Not Automatic

Hedge accounting recognizes the offsetting effects on profit or loss of the changes in the fair values of the hedging instruments and the hedged item. In order to apply hedge accounting, FRS 139 requires the hedging relationship to meet all of the following criteria:

- Formal designation and documentation
(these include, amongst others, the entity's risk management objective, strategy for undertaking the hedge, identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness);
- Expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk as designated and documented, and effectiveness can be reliably measured; and
(hedge effectiveness has to be assessed both prospectively and retrospectively. The standard prescribes actual results of the hedge within the range of 80% to 125% to be regarded as highly effective)
- Assessed on an ongoing basis and determined to have been highly effective

FRS 139 distinguishes hedge relationship into three (3) types:

1. Fair value hedge

Hedge of exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment. The gain or loss from the change in fair value of the hedging instrument is recognised immediately in profit or loss. At the same time the carrying amount of the hedged item is adjusted for the corresponding gain or loss with respect to the hedged risk, which is also recognised immediately in net profit or loss.

2. Cash flow hedge

Hedge of exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income.

3. Hedge in net investment

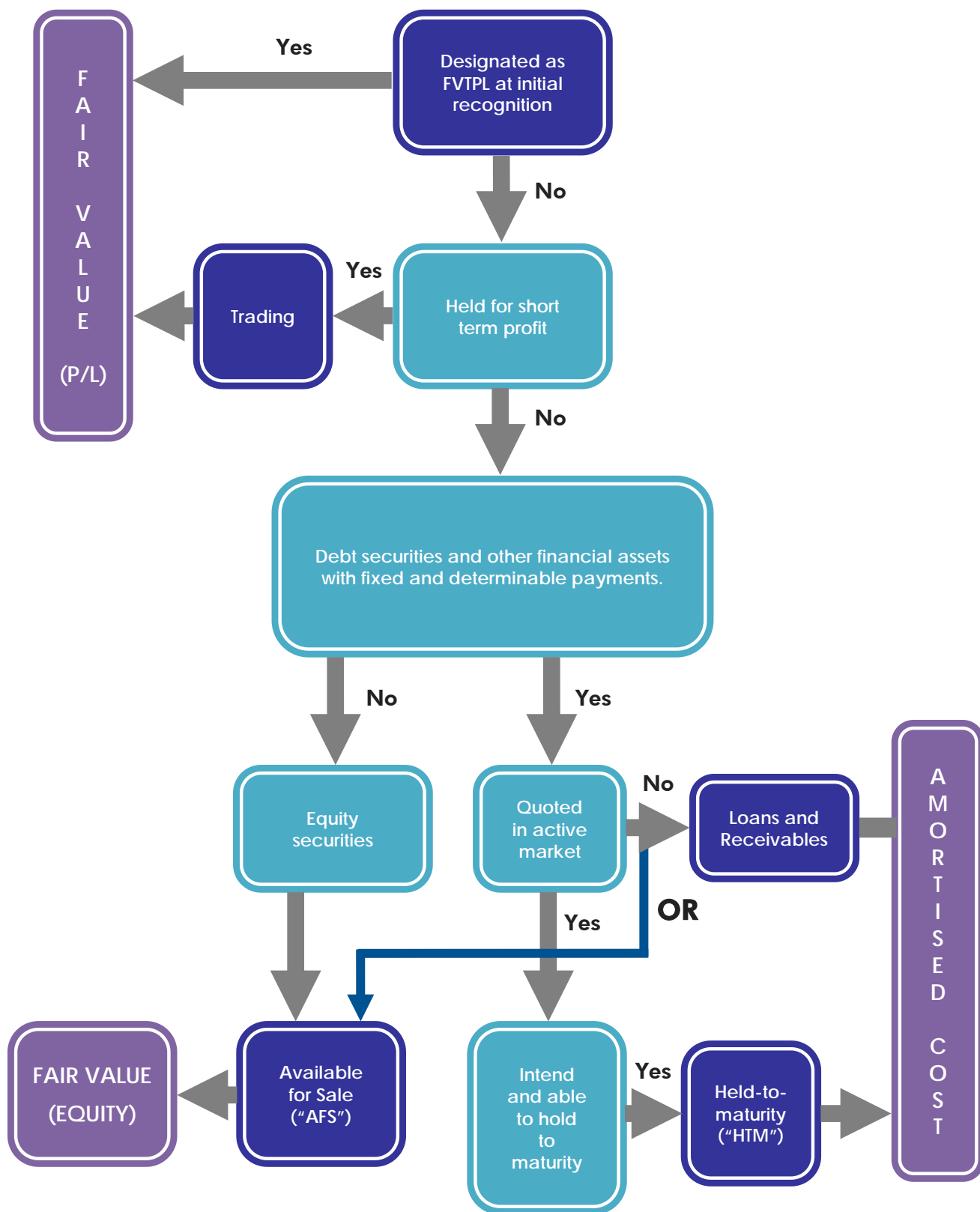
Hedge of a net investment in a foreign operation (including a hedge of a monetary item that is accounted for as part of the net investment), as defined in FRS 121.

The disclosure requirements for hedge accounting are stipulated in FRS 7.

Important:

Refer to the last section of this publication "IFRS 9 – What is New?" on changes introduced by IFRS 9 that replace some principles of FRS 139 and resulted in consequential amendments to FRS 132 and FRS 7 relating to classification and measurement of financial assets.

FRS 139 Classifications and Measurement of Financial Assets





FRS 132 and FRS 7

Financial Instruments |

Presentation and Disclosure

(effective for financial period beginning on or after 1 January 2010)

PREAMBLE

FRS 132 (Presentation) and FRS 7 (Disclosure) complement the principles of recognizing and measuring financial assets and financial liabilities in FRS 139.

FRS 132 lays out the criteria for classification of financial instruments whilst FRS 7 enhances financial statements users understanding of the entity's exposures to financial risks and how the entity manages those risks. The extent of disclosures depends on the industry the entity is in and the extent and complexity of financial instruments used. First time adopters of FRS 7 are encouraged but not required to present comparative disclosures.

Presentation Requirements under FRS 132

FRS 132 establishes principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and liabilities. This is addressed in the following ways:

- Clarifying the classification of a financial instrument issued by an entity as a liability or as equity
- Prescribing the accounting for treasury shares
- Prescribing strict conditions under which assets and liabilities may be offset in the balance sheet

Classification as Liability or Equity

The fundamental principle of FRS 132 is that a financial instrument should be classified as either a financial liability or an equity instrument according to the substance of the contract, not its legal form.

A financial instrument is an equity instrument only if:

- a) the instrument includes no contractual obligation to deliver cash or another financial asset to another entity; and
- b) if the instrument will or may be settled in the issuer's own equity instruments, it is either:
 - a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
 - a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Puttable Instruments

There is an exception for puttable instrument (i.e. an obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset on exercise of the option) which meets the definition of a financial liability to be classified as equity if it has all the following features:

- it entitles holder a pro rata share of the entity's net assets in the event of liquidation;
- the instrument is in the class of instruments that is subordinate to all other classes of instruments and all financial instruments in the subordinate class has similar features;
- the instrument does not include other contractual obligation to deliver cash or another financial asset to another entity other than the obligation for the issuer to redeem or repurchase it for cash or another financial asset; and
- expected cash flow attributable to the instrument is based substantially on profit or loss, change in recognized net asset or change in fair value of recognized and unrecognized net assets of the entity.

Balance Sheet
as at 30 June 2009

		2009 RMB	2008 RMB
NON-CURRENT ASSETS			
Property, plant and equipment	5	3,214,390	3,074,572
Investments	6	7,458	7,458
Deferred tax assets	7	195,052	—
		3,416,890	3,082,030
CURRENT ASSETS			
Interventions	8	148,236	268,022
Security receivables, receivables and prepayments	9	1,277,043	1,535,388
Subsidiaries in process	10	6,214,008	6,495,327
Multi-annual fund account	11	54,709	57,573
Due receivables	12	10,000,000	8,763,451
World Compromise of Accretions ("WCCA") 2002 Account		307,224	2,653,002
Fund deposits with licensed financial institutions		1,380,208	1,278,522
Cash and bank balances		10,763,263	21,469,226
		23,673,258	35,190,718
TOTAL ASSETS			
CURRENT LIABILITIES			
Subsidiaries in advance	13	746,860	1,927,822
Security liabilities and accounts	14	1,833,257	2,628,274
World Compromise of Accretions ("WCCA") 2002 Account	15	477,238	4,787
Deferred income		3,058,227	4,838,046
		6,115,582	9,408,929
NON-CURRENT LIABILITIES			
Deferred Income - Government grants	16	8,974,284	8,852,421
Deferred Income - Sponsorship		1,528,275	162,214
Deferred liabilities		92,652,896	92,514,932
		10,595,455	10,527,567
TOTAL LIABILITIES			
		16,710,037	20,036,496
NET ASSETS			
ACCUMULATED FUND			
Balance as at 1 July		65,527,224	65,497,226
Net (debt)/income for the financial year		(972,240)	90,000
		64,554,984	65,587,226
Balance as at 30 June		64,554,984	65,587,226

The accompanying notes form an integral part of these financial statements.

Contingent Settlement Provisions

If, as a result of contingent settlement provisions, the issuer does not have an unconditional right to avoid settlement by delivery of cash or other financial instrument (or otherwise to settle in a way that it would be a financial liability) the instrument is a financial liability of the issuer, unless:

- the contingent settlement provision is not genuine; or
- the issuer can only be required to settle the obligation in the event of the issuer's liquidation; or
- the instrument has all the features and meets the conditions of puttable instruments classified as equity pursuant to fulfillment of conditions mentioned in the preceding paragraphs.

Compound Financial Instruments

Some financial instruments have both a liability and an equity component from the issuer's perspective. FRS 132 requires that the component parts be accounted for and presented separately according to their substance based on the definitions of liability and equity. The split is made at issuance and not revised for subsequent changes in market interest rates, share prices, or other event that changes the likelihood that the conversion option will be exercised.

Treasury Shares

The cost of an entity's own equity instruments that it has reacquired ('treasury shares') is deducted from equity. Gain or loss is not recognised on the purchase, sale, issue, or cancellation of treasury shares. Consideration paid or received is recognised directly in equity.

Costs of Issuing or Reacquiring Equity Instruments

Costs of issuing or reacquiring equity instruments (other than in a business combination) are accounted for as a deduction from equity, net of any related income tax benefit.

Offsetting

FRS 132 also prescribes rules for the offsetting of financial assets and financial liabilities. It specifies that a financial asset and a financial liability should be offset and the net amount reported when, and only when, an entity:

- has a legally enforceable right to set off the amounts; and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Disclosure Requirements under FRS 7

Below addresses key disclosure items under FRS 7.

(Note that this is not an exhaustive list of the comprehensive disclosure required by FRS 7)

Statement of Financial Position

- Disclose the significant carrying amounts of financial instruments of the entity. These include disclosures for each of the following categories:
 - ❖ Financial assets and financial liabilities measured at fair value through profit or loss, showing separately those held for trading and those designated at initial recognition
 - ❖ Held to maturity investments
 - ❖ Loan and receivables
 - ❖ Available for sale assets
 - ❖ Financial liabilities measured at amortised cost.
- When financial assets or liabilities are carried at FVTPL, the Standard requires disclosure of the breakdown of the change in the fair value of these items. These include disclosures about the credit and market risks and changes in fair values.
- When there is financial instrument reclassification from fair value to amortised cost or vice versa, the entity needs to disclose the reclassification category, the amount and reason for that reclassification.
- When there is a derecognition of financial asset, including transfers for which derecognition accounting is not permitted by FRS 139, derecognition disclosures are required.
- Information on financial assets pledged as collateral and financial or non financial assets held as collateral.
- In the case where there is a financial asset impairment by credit losses and the impairment amount is recorded in a separate account rather than directly reducing the carrying amount of the financial asset, the entity must disclose a reconciliation of changes in that account during the period.
- Disclose information about compound financial instruments with multiple embedded derivatives.
- Disclose breaches of terms of loan agreements.

Statement of Comprehensive Income

- Disclosure of gains and losses arising from:
 - ✓ financial assets or financial liabilities measured at fair value through profit or loss showing separately those held for trading and those designated at initial recognition
 - ✓ held to maturity investments
 - ✓ loans and receivables
 - ✓ available for sale assets
- Disclosure items of income and expenses including:
 - ✓ interest income and expenses for those financial instruments that are not measured at fair value through profit or loss
 - ✓ fee income and expenses
 - ✓ impairment losses on financial assets
 - ✓ interest income on impaired financial assets.

The image shows two overlapping financial statements. The top document is an 'INCOME STATEMENT for the Financial Year Ended 30 June 2020'. The bottom document is a 'STATEMENT OF COMPREHENSIVE INCOME for the Financial Year Ended 30 June 2020'. Both documents feature columns for the years 2020, 2019, and 2018, and various line items representing financial data.

Other Disclosures

- Disclose in the accounting policies the measurement basis (or bases) and criteria used to determine classification for different types of instruments.
- Disclose information for each type of hedge accounting; fair value hedges, cash flow hedges and hedges of net investments in foreign operations:
 - ✓ description of hedge, nature of risk being hedged, financial instrument designated as hedge and fair value
 - ✓ ineffectiveness recognized in profit or loss

Qualitative and Quantitative Disclosures

- Disclose qualitative and quantitative information about exposure to risks arising from financial instruments. The qualitative disclosures describe management's objectives, policies and processes for managing those risks.
- The quantitative disclosures provide information about the extent to which the entity is exposed to risks, based on information provided internally to the entity's key management personnel. These include credit risk, liquidity risk and market risk.
 - a) **Credit risk**
 - maximum amount of exposure to credit risk and any related collateral held.
 - information on credit quality of assets that are neither past due or impaired.
 - for financial assets that are past due or impaired, analytical disclosures are required.
 - information about collateral or other credit enhancements obtained or called.
 - b) **Liquidity risk**
 - a maturity analysis of financial liabilities.
 - an explanation on how this liquidity risk is being managed.
 - c) **Market risk**
 - disclose sensitivity analysis of each type of market risk to which the entity is exposed, including assumptions used in preparing the analysis. If there are any changes in methods used from previous period, disclose reasons for the changes.

Challenges in the Implementation of FRS 7

The adoption of FRS 7 brings several challenges in financial reporting. Entities may have to invest considerable amount of time and resources in getting themselves ready to be in compliance with this Standard. Below include several challenges entities should consider:

- In a situation where entities' results were significantly affected due to changes in market conditions, FRS 7 requires reporting entities to disclose the sensitivity of their results to movements in market risks as a consequence of their financial instruments.
- Management needs to assess whether required information is available or can be made available from its existing systems and processes to meet the FRS 7 disclosure requirements. Management should implement a plan around how new information will be collected.
- Management needs to review whether the system used to compile the required disclosure information are subject to the appropriate level of internal control for financial reporting purposes, including audit trail.
- Management should be aware that FRS 7 requires information disclosures used by key management to measure and manage risk.
- Management should identify employees who will be responsible to produce the required information and consider if further training is required. These include the financial reporting function and teams that manage risks such as treasury, corporate finance, risk management etc.

Important:

Refer to the last section of this publication "IFRS 9 – What is New?" on changes introduced by IFRS 9 that replace certain principles of FRS 139 and resulted in consequential amendments to FRS 132 and FRS 7 relating to classification and measurement of financial assets.



IFRS 9
Financial Instruments
Replacing IAS 39
What is new?

INTRODUCTION

IFRS 9 is the product of Phase 1 of the IASB current project to replace IAS 39. The project was initiated in response to the call from many users of financial statements to develop a less complex standard and the conclusion of the G20 leaders.

IFRS 9 was published on 12 November 2009 by the IASB. The standard is applicable for financial statements with annual periods beginning on or after 1 January 2013. Earlier application of this standard is permitted.

IFRS 9 establishes principles for classification and measurement of financial assets. These said principles will override the existing provisions enunciated in FRS 139 relating to classification and measurement of financial assets. These changes have also resulted in consequential amendments to FRS 132 and FRS 7. The key changes are highlighted below:

- **Replace numerous category of financial assets under FRS 139**

IFRS 9 has made the segregation of financial assets into four categories required by FRS 139 redundant. The standard now requires financial assets to be classified in accordance with an entity's business model in managing the financial assets and the contractual cash flow characteristics of the financial assets.

IFRS 9 requires all financial assets to be measured at fair value provided all the following conditions are met to warrant amortised cost to be used:

- financial asset has basic loan features i.e. held with an objective to collect contractual cash flows; and
- is managed on a contractual yield basis.

From the onset, the classification has been made much simpler, for instance there is no need for entities to worry about the "HTM investment being tainted". However, entities should take note that fair value is the default measurement for all financial assets if the conditions to use amortised cost are not fulfilled. Any gains or losses resulting from the fair value measurement will be recognized in the profit or loss except for an option made available for equity instruments (not held for trading) to recognize the gains or losses to other comprehensive income.

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IFRS 9 establishes principles for classification and measurement of financial assets.... (which) will override the existing provisions enunciated in FRS 139. Fair value is the default measurement for all financial assets in IFRS 9
 ● ● ●

- **Irrevocable option to present gains or losses on equity instruments to other comprehensive income**

Entities are given an irrevocable election at initial recognition to recognise all fair valuation gains or losses of equity instruments that are not held for trading to other comprehensive income. The election could be decided on an instrument-by-instrument basis. Once this measurement model is selected, all gains (such as dividend) and losses including impairments will be recognised in the other comprehensive income.

- **Reclassification of financial assets**

Similarly, the reclassification principles enunciated in FRS 139 are now made superfluous. There is no need for entity to prove the intention and ability to hold a financial asset for the foreseeable future or until maturity to justify a reclassification.

Only when an entity changes its business model to manage the financial assets, it shall reclassify the affected assets. The reclassification of financial assets is determined in accordance with the principles on classification of the financial assets. For instance, if due to a change in business model of the entity, a financial asset does not meet the criterion to use amortised cost, an entity reclassifies the financial asset to be measured at fair value. Similarly, if a financial asset previously measured at fair value meets the criterion to use the amortised cost, a reclassification to that effect is made.

- **Removes exemption under FRS 139 to measure unquoted equity instruments at cost if fair value cannot be reliably measured**

IFRS 9 removes the exemption given by FRS 139 to measure an unquoted equity security using the cost model when its fair value cannot be determined reliably. The standard requires all equity instruments to be fair valued.

- **Embedded derivatives**

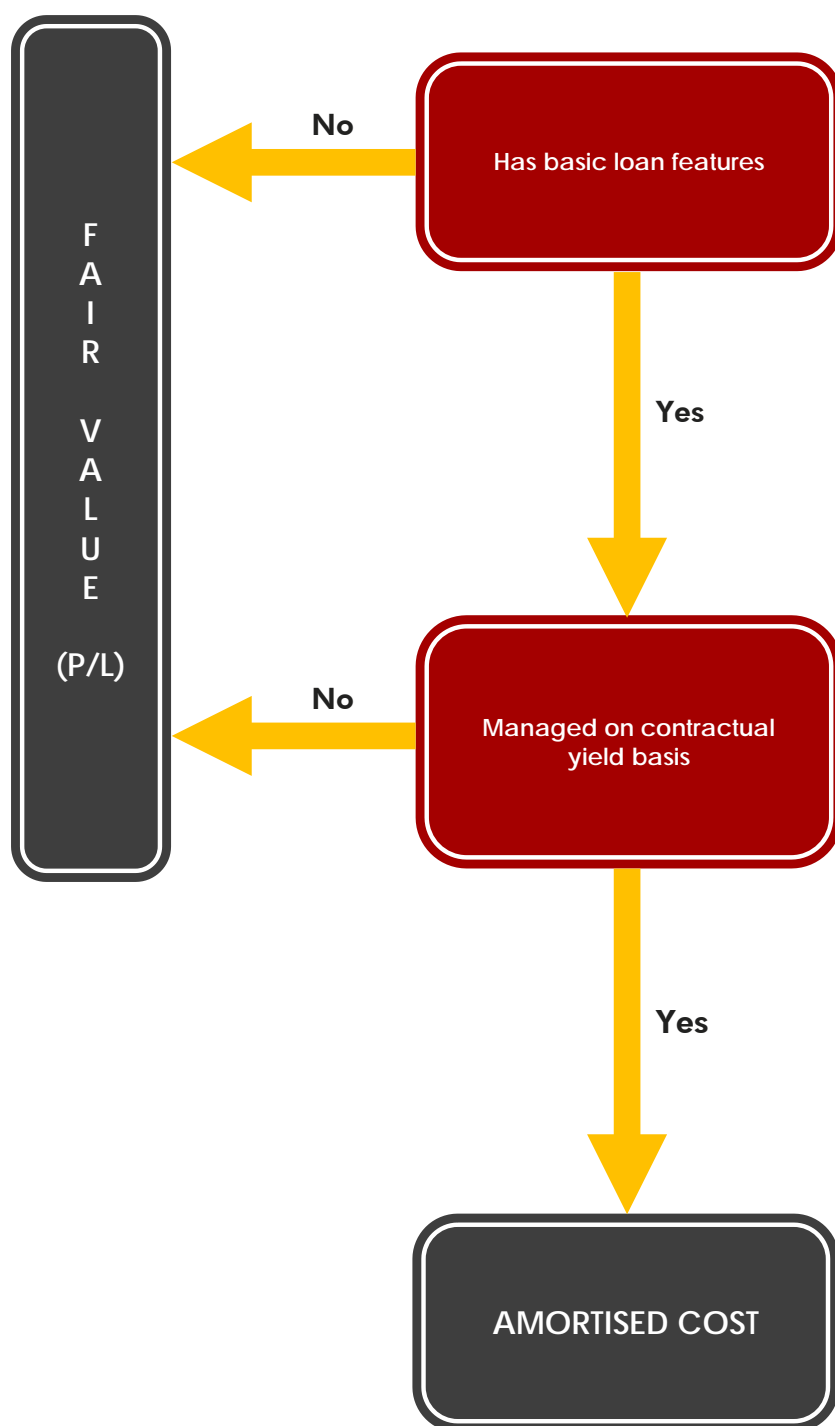
IFRS 9 requires embedded derivatives in financial host contracts to be assessed on its entirety. Similar principle on classification and measurement of financial assets is applicable to hybrid contracts. Therefore, derivatives embedded in a financial host instrument could be stated at amortised cost if it carries basic loan features and is managed on a contractual yield basis.

FRS 139's existing requirement to determine if an embedded derivative needs to be separated from its non-financial host contracts is retained.

- **Consequential Amendments to Presentation and Disclosure of Financial Assets**

- ❖ Requires disclosure of financial assets measured at fair value segregating into (i) those designated upon initial recognition and (ii) those mandatorily measured at fair value in accordance with IFRS 9
- ❖ Disclosure of information for held-to-maturity investments, loans and receivables and available-for-sale assets have been removed
- ❖ Requires disclosure on gains and losses on financial assets at fair value through profit and loss, showing separately those designated on initial recognition and those that are mandatorily measured at fair value in accordance with IFRS 9
- ❖ Requires disclosure on gains and losses on financial assets measured at fair value through other comprehensive income.

IFRS 9 Classifications and Measurement of Financial Assets



The Malaysian Institute Of Accountants (“MIA”)

MIA is a statutory body established under the Accountants Act, 1967 to regulate and develop the accountancy profession in Malaysia. To date, MIA has close to 25,000 members. For more information please visit: www.mia.org.my

The Use of the Word “Accountant”

In Malaysia, the word “accountant” is protected as provided for under the provisions of the Act which states that no one can hold himself out or practise as an accountant unless he is registered as a member of MIA.

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