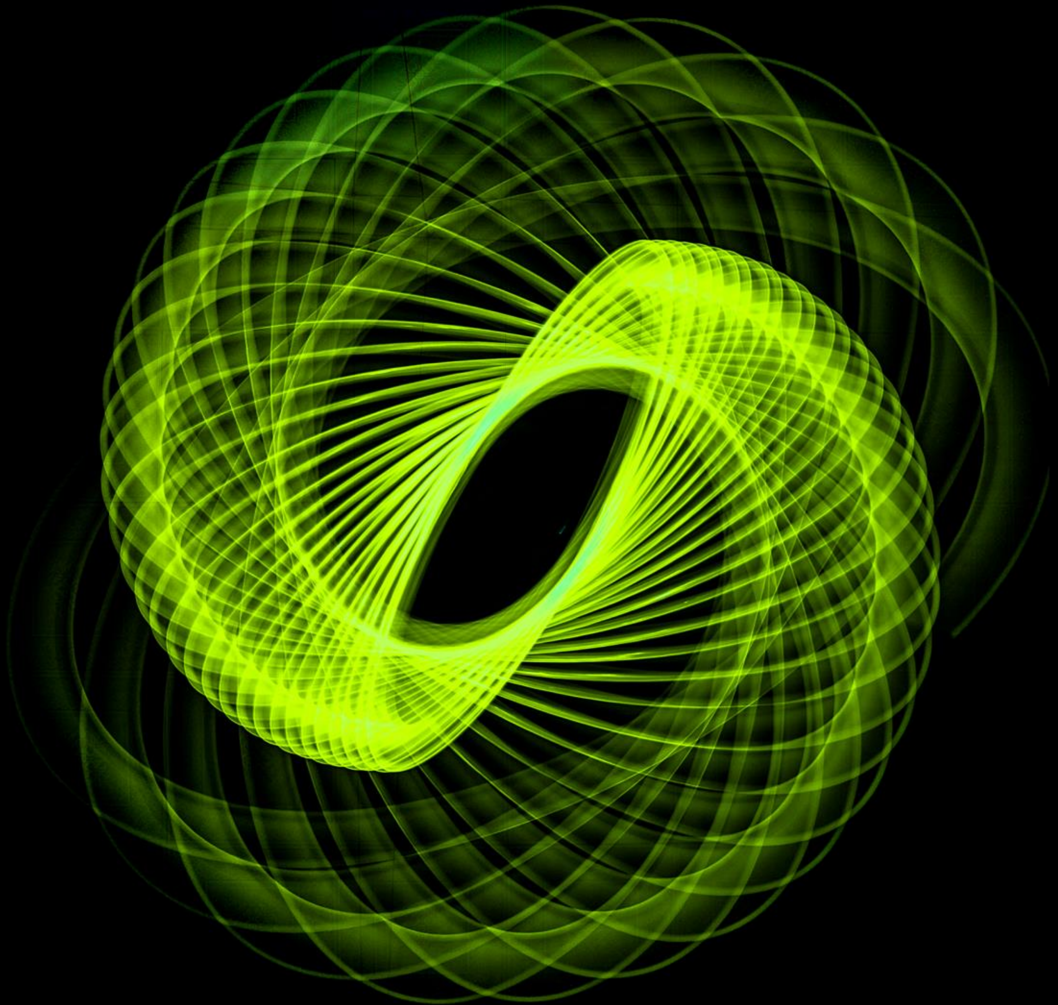
Deloitte.



IFRS 9 Financial Instruments

IFRS Super Conference Dubai

LIGHT
THE WAY

Caveat

These seminars are meant to provide high level presentations on various IFRS Standards.

The training material does not provide official Deloitte Touché Tohmatsu Limited interpretive accounting guidance.

Financial Statements prepares and users are advised to seek professional advise in applying and interpreting the IFRS Standards covered by these presentations.

Deloitte.

Transition and Effective Date

IFRS 9 shall be applied for annual periods beginning on or after 1 January 2018

IFRS 9 has arrived.
Have you?

1 January 2017

Initial recognition of the instrument

1 January 2018

Initial application of **IFRS 9**

31 December 2018

First annual financial statements in accordance with **IFRS 9**

Generally retrospective, subject to multiple exceptions and exemptions, some of which require elections to be made in advance of adoption.

Genesis of IFRS 9

- The 2007-08 sub-prime crisis triggered a global need for revision of financial reporting standards
- The crisis highlighted acute shortcomings in IAS 39 and other financial reporting standards prevalent across the globe:
  - IAS 39 required use of 'impaired loss model' –
  - Overstatement / front-loading of interest revenue
  - Loss Recognition: 'Too little – too late'
- FASB has not converged with the IASB approach
- FASB is still deliberating its method of credit loss measurement (based on full lifetime expected losses)

IFRS 9 Journey

2007-8

Financial Crisis hits the world

2008

IASB and FASB publish a joint discussion paper for new financial standards

2009

IASB and FASB disagreed on several issues and the approach to revision of standards

2009

IASB issues first portion of IFRS, covering classification and measurement of financial assets

2010

IASB issues portion covering classification and measurement of financial liabilities

2012

IASB issues exposure draft proposing limited amendments to C&M of financial instruments

2013

IASB issues exposure draft proposing an impairment model

2013

IASB issues portion covering hedge accounting

24 July 2014

IAS issues final IFRS 9 standard, including hedge accounting, impairment, and the amended classification and measurement

4

Contends

Deloitte.

Classification and measurement

Financial Assets

Overview

LIGHT
THE WAY

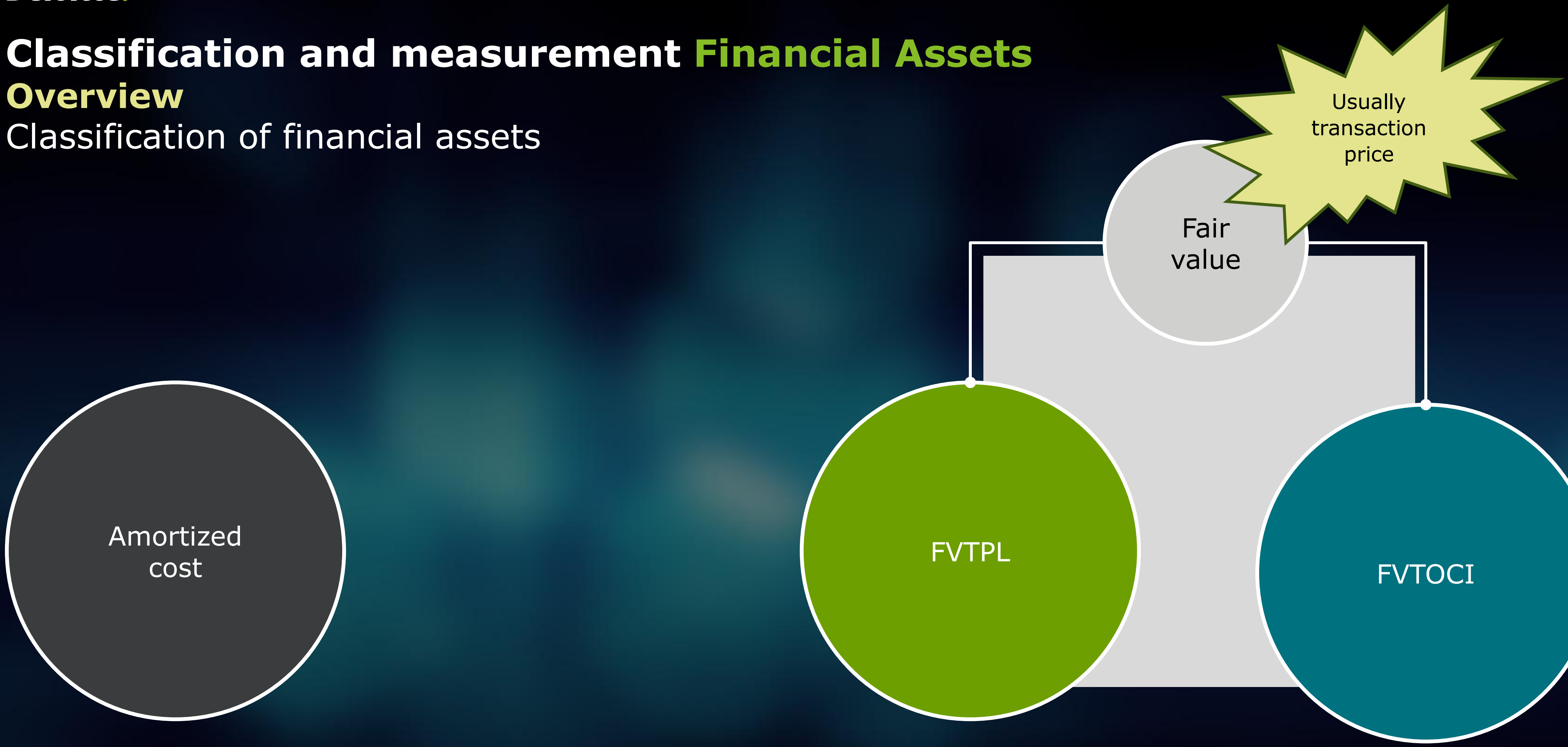
IFRS Super Conference Dubai

Deloitte.

Classification and measurement Financial Assets

Overview

Classification of financial assets



Deloitte.

Classification and measurement Financial Assets
Overview
Classification of financial assets

Classification is determined using a

Two step test:

Contractual cash flow characteristics test

- Do cash payments/ receipts reflect payments of principal and interest only?

SPPI test

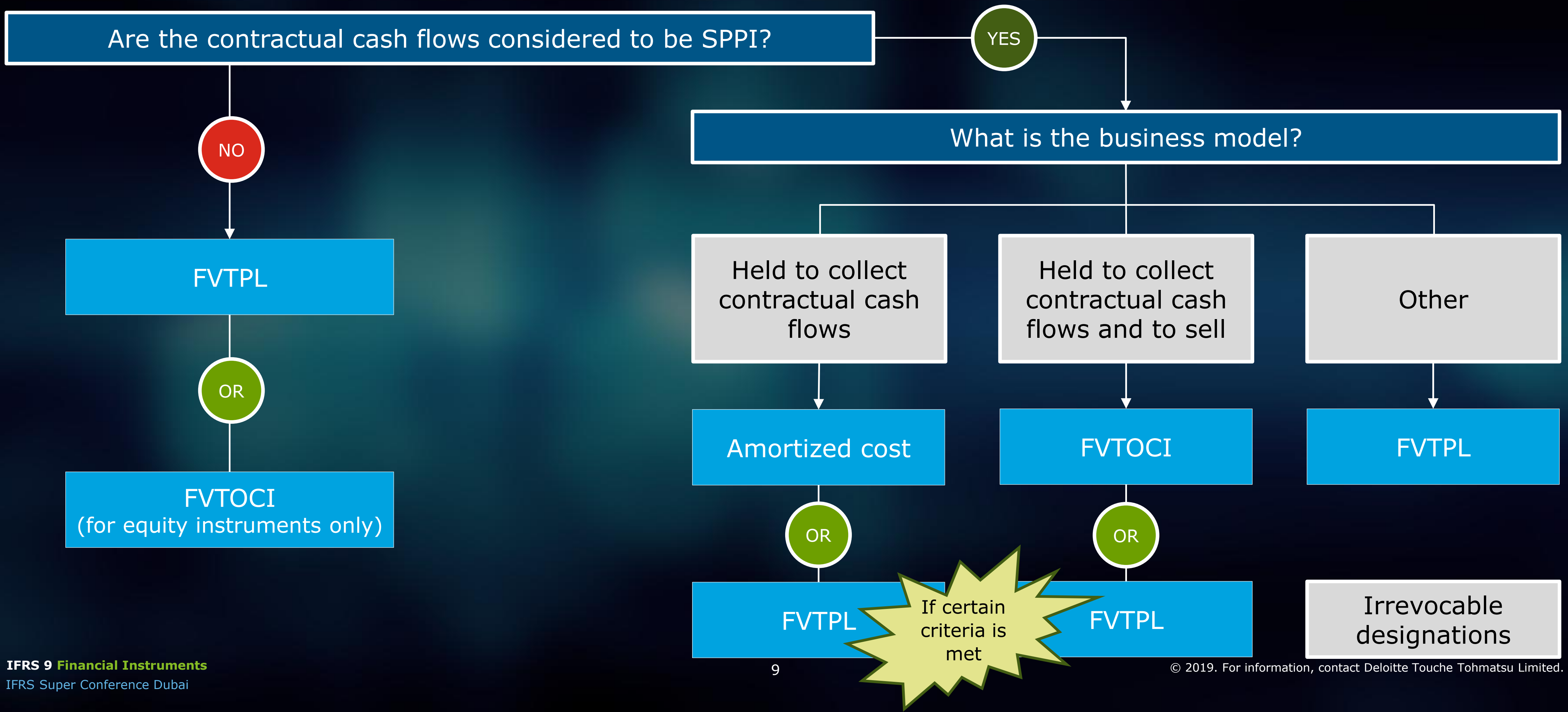
Business model test

- How is the financial asset/ group of financial assets managed?
- Consider activities undertaken to achieve objective

Deloitte.

Classification and measurement Financial Assets

Overview: Decision tree



Deloitte.

Classification and measurement Financial Assets

Overview

Possible classifications of financial assets

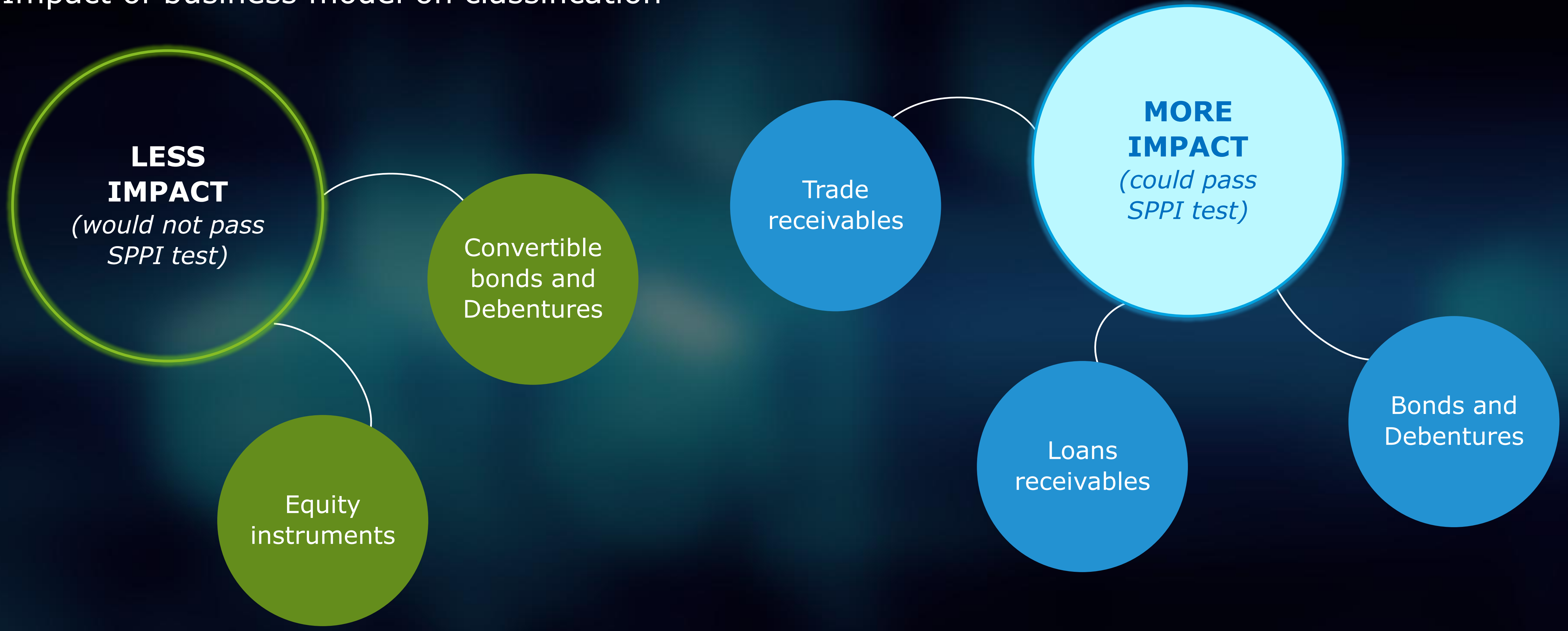
Measurement Category	Type of Financial Asset: Derivative Instrument	Equity Instrument	Debt Instrument
Amortized Cost			✓
FVTOCI			
• Classified			✓
• Elected at initial recognition (Designated)		✓	
FVTPL			
• Classified	✓	✓	✓
• Elected at initial recognition (Designated)		✓	✓

Deloitte.

Classification and measurement **Financial Assets**

Determining the business model

Impact of business model on classification



Deloitte.

Classification and measurement Financial Assets

Determining the business model

Changes to the business model

Changes in business model should be RARE…it should not change as a result of……

- Changes in intention
- Temporary disappearance of the market for an asset
- Transfer of an asset to a different part of the entity with a different business model

Deloitte.

Classification and measurement Financial Assets

Solely payments of principal and interest (“SPPI”)

Consistency with a basic lending arragement

In a basic lending arrangement the elements of interest are:

- Consideration for the time value of money
- Consideration for credit risk
- Other basic lending risk or costs
- A profit margin

Any contractual feature that deviates will cause instrument to fail SPPI test

Deloitte.

Classification and measurement Financial Assets

Solely payments of principal and interest ("SPPI")

Financial instruments categories

Equity Instruments

- Do not have contractual requirements for payments to be made to the holder, dividend payments are not mandatory and they would have a maturity date, as such these instruments will fail the **SPPI test**
- Measured at **fair value through profit or loss** unless an election is made for fair value through other comprehensive income

Hybrid Instruments

- Analyze the instrument in its entirety
- **Fail SPPI test** since the return a holder is getting is linked to the value of the equity of the issuer

Debt instruments

- Numerous considerations when assessing if the instrument has contractual cash flows that are solely payments of principal and interest

Deloitte.

SPPI Test Knowledge Check

Entity W acquires a zero coupon bond that was originally issued by Entity X. The terms of the bond require repayment of CU10 million by Entity X in 3 years. The terms of the bond do not include a contractual interest rate.

A. Meets SPPI Criterion

B. Fails SPPI Criterion

Answer – A. Meets SPPI Criterion

Entity S lends €10 million to Entity T. The terms of the loan require Entity T to repay €10 million in 3 years. The interest rate on the loan is based on EURIBOR plus 2% on €10 million payable in arrears at the anniversary date of the lending. The rate of EURIBOR is determined in advance, i.e. at the start of each annual period. There are no other features in the contractual terms that result in any variability in the contractual cash flows.

A. Meets SPPI Criterion

B. Fails SPPI Criterion

Answer – A. Meets SPPI Criterion

Deloitte.

SPPI Test Knowledge Check

Instrument G is a perpetual instrument but the issuer may call the instrument at any point and pay the holder the par amount plus accrued interest due. Instrument G pays a market interest rate but payment of interest cannot be made unless the issuer is able to remain solvent immediately afterwards.

Deferred interest does not accrue additional interest.

A. Meets SPPI Criterion

B. Fails SPPI Criterion

Answer – B. Fails SPPI Criterion

Entity A has a loan agreement that specifies that the interest rate will change depending on the borrower's credit rating, EBITDA or gearing ratio

A. Meets SPPI Criterion

B. Fails SPPI Criterion

Answer – A. Meets SPPI Criterion

Deloitte.

SPPI Test Knowledge Check

A fixed interest rate bond, all of whose CCF are non-discretionary, but whose issuer is subject to legislation that permits or requires regulator to impose losses on holders of particular instruments in particular circumstances – e.g, if the issuer is having severe financial difficulties or additional regulatory capital is required

A. Meets SPPI Criterion

B. Fails SPPI Criterion

Answer – A. Meets SPPI Criterion

Will project finance loans (without recourse) pass the SPPI test

A. Meets SPPI Criterion

B. Fails SPPI Criterion

Answer – B. Fails SPPI Criterion

Deloitte.

SPPI Test Q&A
Consideration varies based on future market prices

Entity A enters into a contract with Customer B to deliver 1,000 tons of copper concentrate to Customer B on 1 December 20X1. The final price will be based on the London Metal Exchange (LME) copper price three months after the date of delivery (i.e. 28 February 20X2). This contract is non-cancellable.

Does Entity A's receivable meet the 'contractual cash flow characteristics test' in IFRS 9.4.1.2(b) or IFRS 9.4.1.2A(b)?

Answer

No. Because the contractual cash flows vary based on the price of copper at maturity, the receivable does not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. Consequently, the receivable should be measured at fair value through profit and loss in accordance with IFRS 9.4.1.4. The receivable would be initially recognised on 1 December 20X1 at fair value and subsequently measured at fair value reflecting changes in the market price of copper until it is settled on 28 February 20X2.

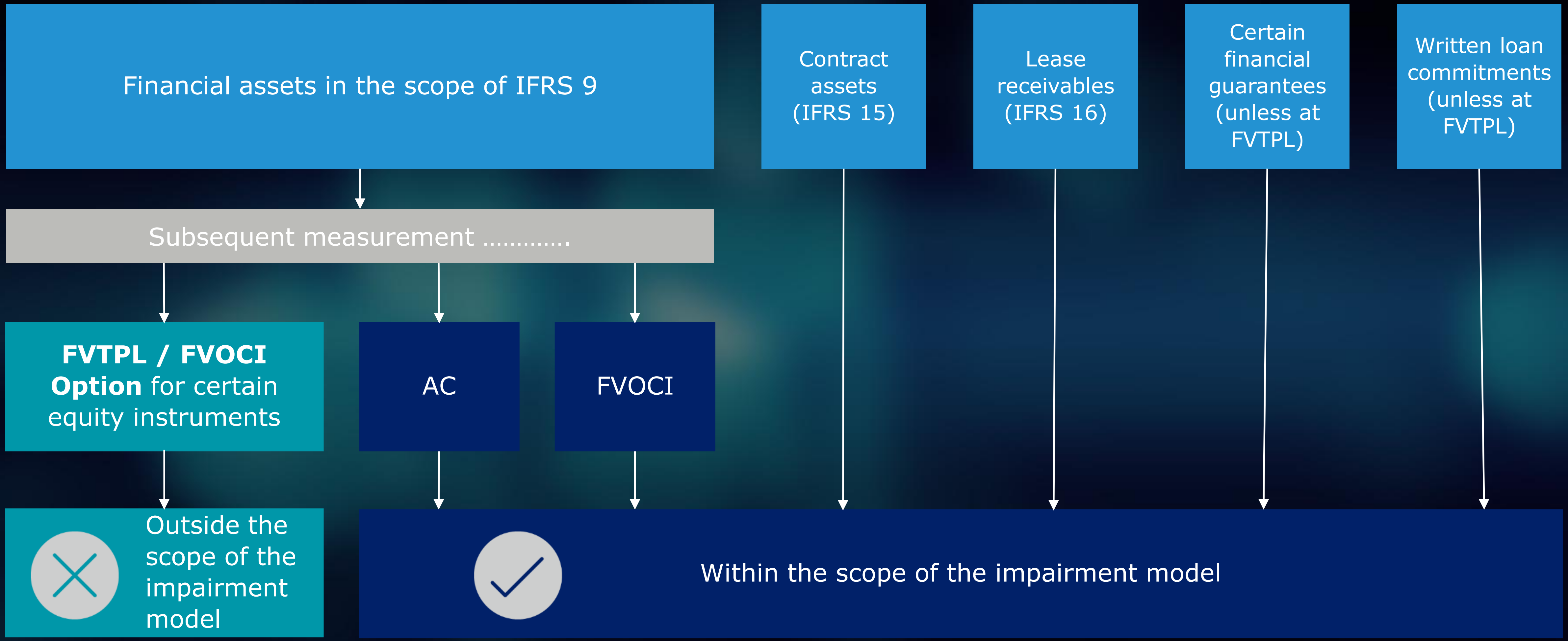
Expected Credit Loss

Overview

LIGHT
THE WAY

Deloitte.

Expected Credit Loss Overview
Scope



Deloitte.

Corporate balance sheet – Assets (illustrative)

Balance sheet line item	ECL impact
ASSETS	
Bank balances	
Trade and other receivables	
Investments - Equity	
Investments - Bonds	
Inventory	
Property, plant and equipment	

Trade & other receivable	Impairment
Trade receivable	
Contract assets	
Related party dues	
Advance to suppliers	
Refundable security deposit	
Pre-paid expenses	

Impact	
High	
Low	
No impact	

- Simplified approach
- Low credit risk exemption

Expected Credit Loss **Overview**

ECL Model under IFRS 9

ECL forward looking	=	The probability of defaulting if you haven't already at time ***t***	X	The forecasted economic loss if the default happens at time ***t***	X	The forecasted exposure at each point in time
		↓ **PD**		↓ **LGD**		↓ **EAD**

To compute ECL an entity will require, at the minimum, estimates of the following:

- Probability of Default (PD)
- Loss Given Default (LGD)
- Exposure at Default (EAD)
- PD & LGD to be adjusted for change in forecasted macro economic variables

Deloitte.

Expected Credit Loss Overview
Exemptions from the general model

- Lease receivables
- Contract assets and trade receivables with significant financing component

Policy choice

General model

Stage 1 → Stage 2 → Stage 3

Contract assets and trade receivables **without** significant financing component

Simplified model

Stage 2 → Stage 3

Purchased or originated credit-impaired financial assets (POCI)

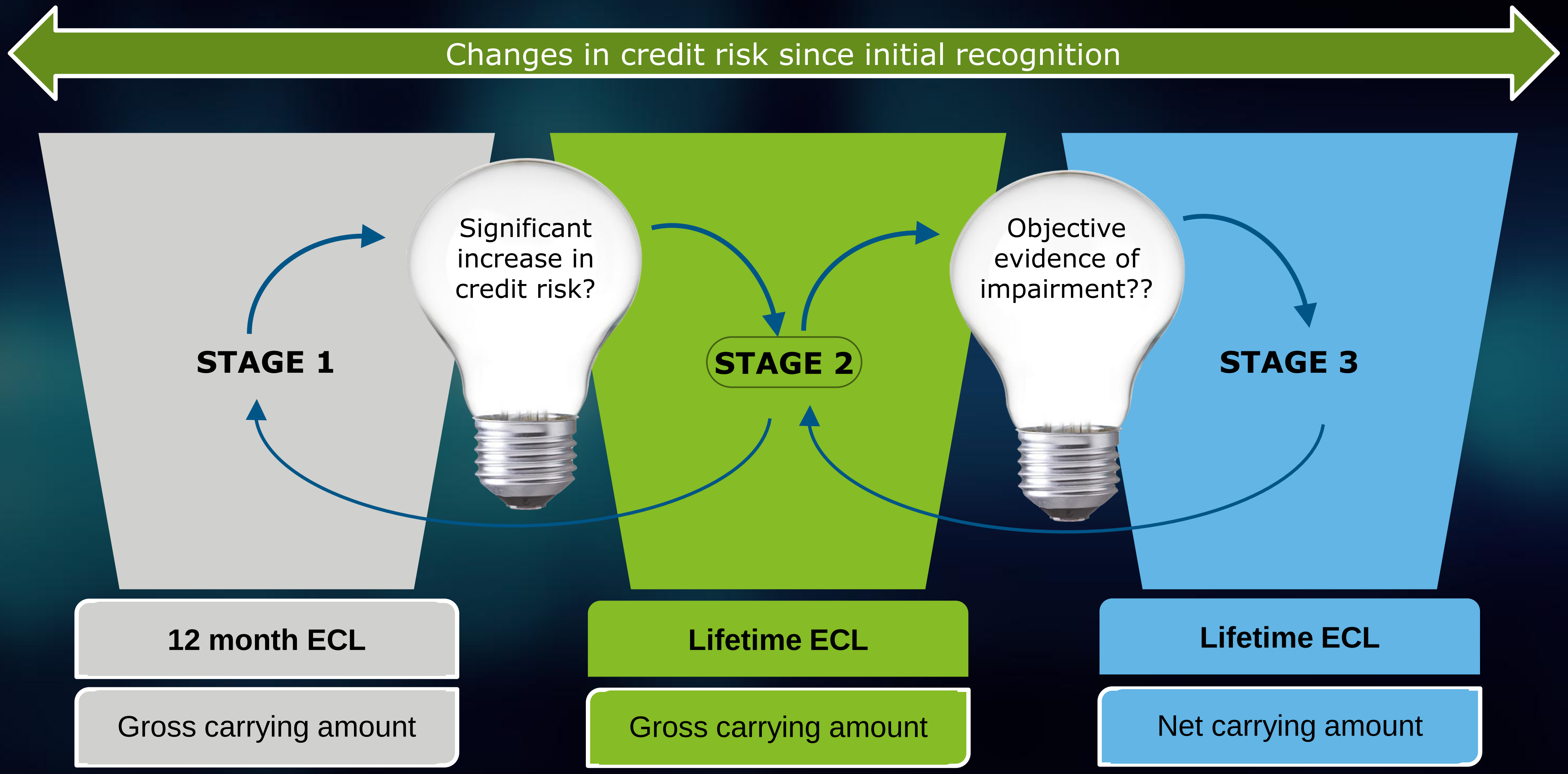
Special provisions

- No loss allowance on initial recognition
- Apply a credit-adjusted effective interest rate (based on the expected cash flows at inception including expected credit losses)

Stage 3

Deloitte.

Expected Credit Loss Overview
Impairment – general model



Loss allowance

Apply effective interest rate to ……..

Deloitte.

Key Definition | RoMM | Significant Judgment

Transfer out of Stage 1 into Stage 2
Assumptions and approximations

Policy choice

Low credit risk

e.g. investment grade

STAGE 1

Approximation

12-month-PD

Assessment on counterparty level

Consistent threshold on portfolio level

Significant increase in credit risk?

Rebuttable assumption

More than 30 days past due

Latest point of transfer to Stage 2

STAGE 2

Deloitte.

RoMM

Significant Judgment

Transfer out of Stage 1 into Stage 2

Examples of indicators

- Changes in terms if the instrument would be newly originated
- …
- Significant increase in credit risk on other instruments of the same borrower
- Changes in the entity's credit management
- Changes in external market indicators of credit risk
- Adverse changes in business, financial or economic conditions
- …
- Downgrade of the internal or external rating

Deloitte.

Expected Credit Loss Overview
Expected loss allowance : 12-month vs lifetime

Stage 1

12-month expected losses

- 12 month ECL reflects the cash shortfalls over the life of the loan arising from a default in the next 12 months
- Most assets begin in this bucket
- Effect of the entire credit loss on a financial instrument weighted by the probability that this loss will occur in the next 12 months

Stage 2

Life time expected losses

- Lifetime ECLs are the total expected cash shortfalls arising from all possible default events over the life of the loan
- Assets migrate to this bucket if the credit risk has increased significantly since initial recognition (unless 'low credit risk')

Examples

- Loan of CU 10m
- Expected 2% probability to default in next 12 months
- Entire loss that would arise on default is 10%

12 month ECL = CU 20,000 (10m x 2% x 10%)

- Loan of CU 10m
- Expected 12% probability to default over lifetime
- Entire loss that would arise on default is 15%

Lifetime ECL = CU 180,000 (10m x 12% x 15%)

Note: Discounting has been ignored in the simplified example

Deloitte.

Expected Credit Loss Overview

Transfer into Stage 3 – indicators that an instrument is credit impaired

Credit impaired

Breach of contract (e.g. past due or default)

Significant **financial difficulty** of the borrower

Disappearance of an active market for the instrument

Lenders grant a **concession** relating to the borrower's financial difficulty

Probable **bankruptcy** or other financial reorganisation

Latest point of transfer to Stage 3

Rebuttable assumption

More than 90 days past due

Deloitte.

Expected Credit Loss Overview

ECL Model under IFRS 9

ECL forward looking	=	The probability of defaulting if you haven't already at time ***t***	X	The forecasted economic loss if the default happens at time ***t***	X	The forecasted exposure at each point in time
		PD		**LGD**		**EAD**

To compute ECL an entity will require, at the minimum, estimates of the following:

- Probability of Default (PD)
- Loss Given Default (LGD)
- Exposure at Default (EAD)
- PD & LGD to be adjusted for change in forecasted macro economic variables

Deloitte.

Expected Credit Loss Lifetime Expected Credit Loss (ECL) Measurement
Provision matrix for short term trade receivables

Facts:

- Manufacturer M with a portfolio of short term trade receivables (no financing component) from a large number of small clients

Assessment:

- Loss allowance at an amount equal to Lifetime ECL (simplified approach for trade receivables)
- Entity creates a provision matrix that is based on its historical observed default rates over the expected life of trade receivables and adjusts it for forward looking estimates.

Age	Default rate	Gross carrying amount	ECL allowance
	A	B	A x B
Current	0.3%	CU15,000,000	CU45,000
1-30 days PD	1.6%	CU7,500,000	CU120,000
31-60 days PD	3.6%	CU4,000,000	CU144,000
61-90 days PD	6.6%	CU2,500,000	CU165,000
>90 days PD	10.6%	CU1,000,000	CU106,000
		CU30,000,000	**CU580,000**

Deloitte.

Expected Credit Loss Lifetime Expected Credit Loss (ECL) Measurement
How to estimate ECL

What kind of payment history is available?	• Customer wise • Invoice wise • None (oops!)
What is the level of data mining possible?	• High? (4-5 years) • Medium? (3-4 years) • Low? (up to 2 years only)
What is the quality of the data available?	• Sophisticated e.g ERP systems? • Accounting software? • Excel based manual accounting?

Deloitte.

Expected Credit Loss Lifetime Expected Credit Loss (ECL) Measurement
Historical data mining – Trade receivables (Invoice wise analysis)

Invoice number	Customer name	Issued date	Payment received date	Issued amount (QAR'000)	Received amount (QAR'000)	Default	Days past due	Default days	Default amount (QAR'000)	Amount recovered (QAR'000)
1234	A	6-Jun-16	7-Jul-16	100,000	100,000	No	1	0	-	-
1235	B	6-Jun-14	8-Feb-15	100,000	50,000	Yes	1334	1154	100,000	50,000
1236	C	1-Jan-15	1-May-15	100,000	100,000	No	90	0	-	-
1237	D	1-Jan-16	-	100,000	0	Yes	760	580	100,000	-
1238	E	5-Apr-15	20-Apr-15	100,000	100,000	No	-15	0	-	-
1239	F	8-Apr-15	5-May-15	100,000	50,000	Yes	1028	848	50,000	-
1240	G	18-May-16	14-Sep-16	100,000	100,000	No	89	0	-	-
1241	H	19-Jun-16	13-Aug-16	100,000	100,000	No	25	0	-	-
1242	I	17-Jan-16	5-Sep-16	100,000	20,000	Yes	744	564	100,000	20,000
1243	J	23-Jun-16	-	100,000	0	Yes	586	406	100,000	-
				1,000,000	620000				450,000	70,000

Testing date	31-Dec-17
Credit allowed days	30
Default days	180
Cut off days	365

Probability of default (A)	45%	450K/1000K
LGD (B)	84%	1-(70K/450k)
Loss rate (A*B)	**38%**	45% * 84%

Historical benchmarks

*Default is defined by management as 180 days based on internal credit related measuring policies

Deloitte.

Expected Credit Loss Lifetime Expected Credit Loss (ECL) Measurement

Historical data mining – Trade receivables (Roll rate analysis)

S.No.	1	2	3	4	5	6	7	8	9	10	11
Month	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Ageing bucket											
Sales	1000	1050	1100	1150	1200	1250	1300	1350	1400	1450	1500
Debtors	1000	1150	1315	1490	1670	1850	2025	2193	2322	2451	2580
Not due	1000	1050	1100	1150	1200	1250	1300	1350	1400	1450	1500
0-30 past due		100	125	150	175	200	225	250	275	300	325
31-60			90	110	130	150	170	190	210	230	250
61-90				80	95	110	125	140	155	170	185
91-120					70	80	90	100	110	120	130
121-150						60	65	70	75	80	85
151-180							50	53	56	59	62
>180								40	41	42	43

Historical Roll Rate Analysis

Expected Credit Loss Lifetime Expected Credit Loss (ECL) Measurement

Historical data mining – another example

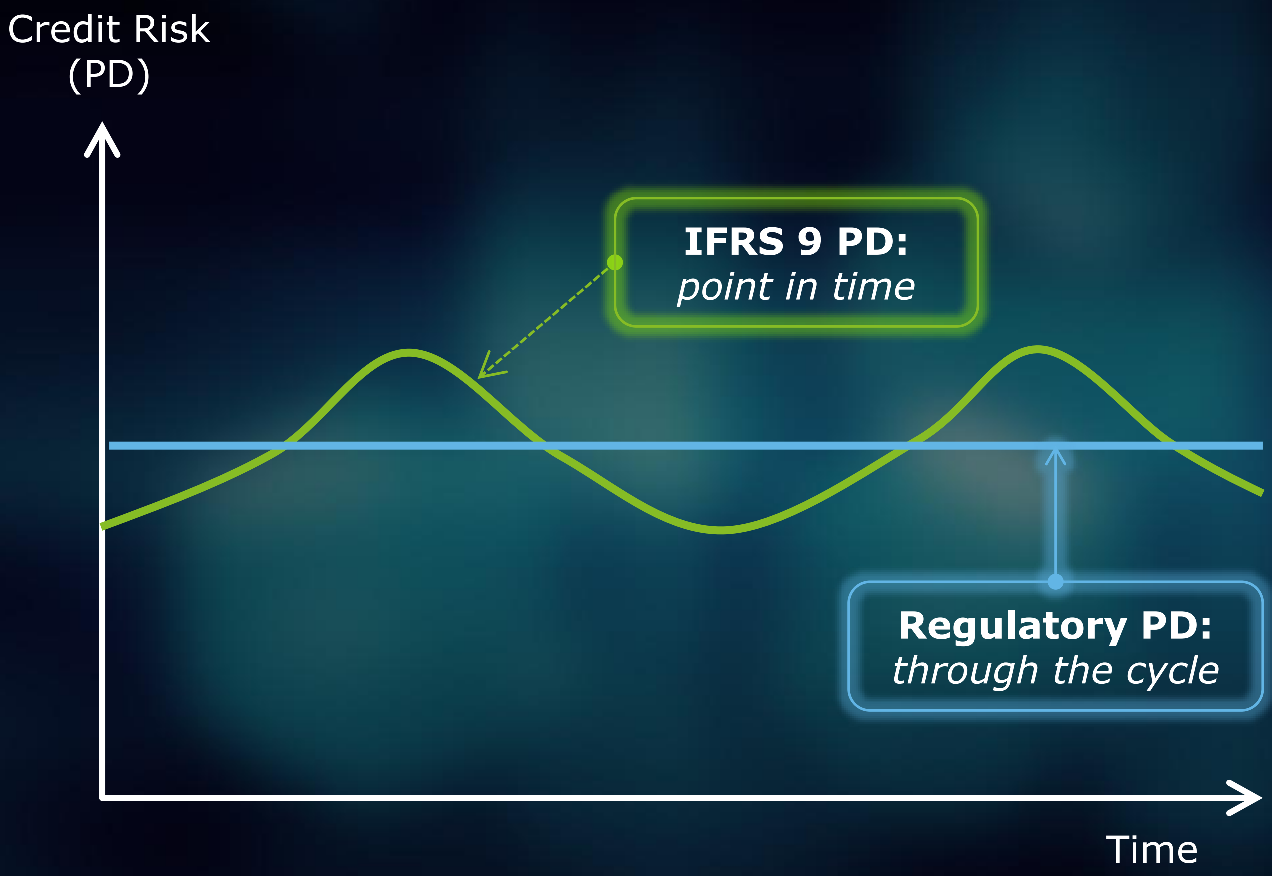
Historical Roll Rate Analysis

S.No.	1	2	3	4	5	6	7	8	9	10	11	
Month	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Average
Ageing bucket												
Not due	4%	4%	4%	4%	4%	4%	4%	3%	3%	3%	3%	4%
0-30 past due		40%	33%	28%	25%	22%	20%	18%	17%	16%	15%	23%
31-60			44%	37%	32%	29%	26%	24%	22%	20%	19%	28%
61-90				50%	43%	38%	34%	31%	29%	27%	25%	35%
91-120					57%	51%	47%	43%	40%	38%	35%	44%
121-150						67%	63%	60%	57%	55%	53%	59%
151-180							80%	77%	75%	73%	71%	75%
>180								100%	100%	100%	100%	100%

Through-the-cycle (TTC) PD versus IFRS 9 Point in time PD

RoMM

Significant Judgment



IFRS 9: Point-in-time PD is relevant!

Expected Credit Loss Lifetime Expected Credit Loss (ECL) Measurement

Recommended ECL Model for trade receivables

Simple provision matrix can be developed as follows to identify historical loss rates within each bucket

- Minimum of 3 years (36 months) analysis of ageing reports
- Customers to be segregated into different pools based on risk characteristics
- Loss rates to be arrived at separately for each pools
- Forward looking adjustments, based on regression analysis of correlation between identified macro economic variable and loss rates, to be applied on the historical loss rates

Deloitte.

ECL for bonds

Computation example

Scenario 1: Year 1 – No significant increase in credit risk

Bond					
Time (years)	*1*	*2*	*3*	*4*	*5*
Coupon	50	50	50	50	50
Capital repayment					1,000
Cash flows	50	50	50	50	1,050
Effective interest rate	5%	5%	5%	5%	5%
DF (EIR)	0,95	0,91	0,86	0,82	0,78
EAD	1,050	1,050	1,050	1,050	1,050
	1,000				
CDS spread	0,50%	0,60%	0,70%	0,80%	0,90%
LGD	60%	60%	60%	60%	60%
Cumulative survival prob	99,17%	98,02%	96,56%	94,81%	92,77%
Periodic PD	0,83%	1,15%	1,46%	1,75%	2,03%
PD*LGD	0,50%	0,69%	0,88%	1,05%	1,22%
EAD	1,050	1,050	1,050	1,050	1,050
Expected loss per period	5,23	7,25	9,19	11,05	12,80
Expected loss per period (discounted at EIR)	4,98	6,57	7,94	9,09	10,03
12M expected loss	**4,98**				

	Debit		Credit
	1/01/2014		
Financial Asset (AC) – B/S	1000		
Cash – B/S			1000
Impairment loss – P/L	4,98		
Loss Allowance – B/S			4,98

Deloitte.

ECL for bonds

Presentation of simplified example

Scenario 2: Year 2 – Significant increase in credit risk

Bond (stress after 1 year)				
Time (years)	*1*	*2*	*3*	*4*
Coupon	50	50	50	50
Capital repayment				1000
Cash flows	50	50	50	1050
Effective interest rate	5%	5%	5%	5%
DF (EIR)	0,95	0,91	0,86	0,82
EAD	1 050	1 050	1 050	1 050
	1 000			
CDS spread	1,20%	1,30%	1,40%	1,50%
LGD	60%	60%	60%	60%
Cumulative survival prob	98,02%	95,76%	93,24%	90,48%
Periodic PD	1,98%	2,26%	2,52%	2,76%
PD*LGD	1,19%	1,36%	1,51%	1,65%
EAD	1 050	1 050	1 050	1 050
Expected loss per period	12,47	14,24	15,87	17,36
Expected loss per period (discounted at EIR)	11,88	12,92	13,71	14,28
Lifetime expected Loss (discounted)	**52,79**			

	Debit		Credit
	31/12/2014		
Impairment loss – P/L	47,81 *(= 52,79 - 4,98)*		
Loss Allowance – B/S			47,81
Financial Asset (AC) –B/S	50		
Interest revenue – P/L			50

Deloitte.

Expected Credit Loss (ECL) Measurement

Example 12 months ECL: Bank balances (Low credit risk exemption used)

Ratings obtained from S&P / Moodys → Credit rating (Latest)

Relevant PIT PD from S&P / Moodys → PD

Regulatory guidance (Basel etc) → LGD

Equivalent to CDS → LR

Bank	Type	Balance (in USD)	Credit rating (Latest)	PD	LGD	LR	ECL
Bank 1	Call account	110,500	Ba1	0.45%	45.00%	0.20%	225
Bank 1	Call account	4,548	Ba1	0.45%	45.00%	0.20%	9
Bank 3	Current account	8,487	Aa2	0.00%	45.00%	0.00%	-
Bank 3	Current account	87	Aa2	0.00%	45.00%	0.00%	-
Bank 4	Current account	129,633	Baa2	0.17%	45.00%	0.08%	99
Bank 4	Current account	657	Baa2	0.17%	45.00%	0.08%	0
Bank 5	Current account	756	Baa2	0.17%	45.00%	0.08%	1
Bank 5	Current account	10,441	Baa2	0.17%	45.00%	0.08%	8
Total		**265,108**					**342**

Deloitte.

Expected Credit Loss (ECL) Measurement

Example 12 months ECL: Related parties

Ratings and PD based on ICR coverage. Source: Bloomberg

Regulatory guidance (Basel etc)

Type	Balance (in USD)	**Industry**	Interest Coverage Ratio	RP rating	PD	LGD	LR	ECL
RP 1	110,500	Eng/Construction	4.25	A2/A	2.18%	45.00%	0.20%	225
RP 2	4,548	Real Estate	2.25	Ba1/BB+	1.98%	45.00%	0.20%	9
RP 3	8,487	Steel	1.25	B3/B-	9.25%	45.00%	0.00%	-
RP 4	87	Fin. Services	0.65	Aa2	1.98%	45.00%	0.00%	-
	265,108							**342**

PD term structure for life time ECL

$$P_t = (1 - P_{t-1}) \times (1 - P_{t-2}) \ \ldots\ldots \times P_{constant}$$

Where,
P_t = Probability of default for period t
$P_{constant}$ = Implied Annual default probability

Deloitte.

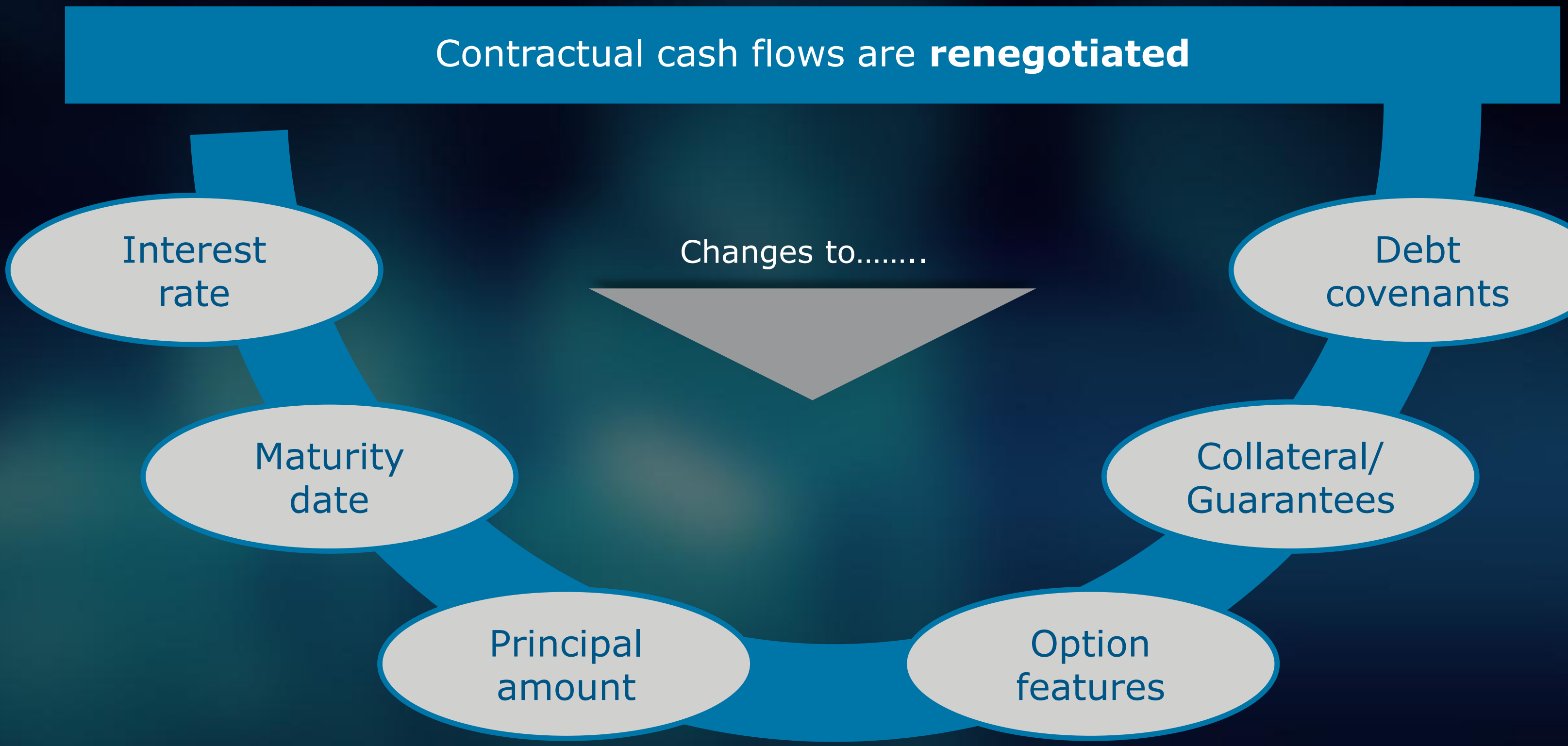
Modification of financial instruments

LIGHT
THE WAY

Deloitte.

Modification of financial instruments

What is a modification?



Modifications to financial instruments have accounting implications that vary depending on whether the modification is "**substantial**" **(IFRS 9.5.4.3)**

Deloitte.

Modification of financial instruments

What about the purpose of a modification?

Troubled debt restructuring

The modification requirements should apply to all modifications or renegotiations of the contractual terms of financial instruments

Commercial reason

The purpose or motivation underlying a modification or renegotiation is irrelevant for the purposes of a derecognition assessment.

Deloitte.

Modification of financial instruments
De-recognition of financial liabilities

Extinguishment occurs when obligations are:

When a financial liability is extinguished, it is derecognized.

Discharged

OR

Cancelled

OR

Expired

Modification of terms where the terms are substantially different are treated as extinguishments

Modification of financial instruments
Modification of financial liabilities

Is the change in contractual terms "substantial"?

YES

- Derecognize old liability and recognize new liability at fair value
- Recognize gain or loss

NO

New

- Change carrying amount of financial liability
- Adjustment recognised in profit or loss

Deloitte.

Modification of financial instruments
Determination of substantial modification – 10% test

The 10% test is required **unless** the conclusion is reached that the modification is substantial based on qualitative factors.

Discounted present value of cash flows under new terms using original effective interest rate

COMPARE

Discounted present value of remaining cash flows under original terms

Substantial if > 10%

- Original liability derecognized
- New liability recognized at fair value

Deloitte.

Modification of financial instruments
Example (1/2)

Lender Corp

Borrower Corp

Original contractual terms
1 January 2014

- $50 million loan
- 8% fixed interest rate
- 10 year maturity
- $1 million transaction costs paid to lender corp

Modified contractual terms
1 January 2019

- Extended maturity by 3 years
- Increased interest rate to 8.5%
- $0.5 million transaction costs
- $49.4 million carrying amount of loan prior to modification

Accounting assessment
1 January 2019

- determine if substantial modification

- qualitative assessment
- 10% test *(difference < 10%)*

- modification loss
- revised carrying amount and new EIR

Deloitte.

Modification of financial instruments

Example (2/2)

Carrying amount prior to modification	−	Revised carrying amount (pre transaction costs)	=	Modification loss
$49.40 M		$50.56 M		$1.16 M
(known)		*(equal to modified cash flows discounted at original EIR of 8.3%)*		

Journal entry to record the modification loss, transaction costs and adjust the loan payable :

	Dr	Cr
Modification loss	$ 1.16 M	
Loan payable		$0.66 M
Cash (to pay for transaction costs)		$0.50 M

The revised loan payable amount after transaction costs ($49.40M + $0.66M = $50.06M) is used to calculate the new EIR of 8.48%

Deloitte.

Modification of financial instruments
Financial assets

IFRS 9 does not provide guidance on how to assess if a modification is considered "**substantial**"

Is modification considered "substantial"?

- Are there any **qualitative** factors that would lead to the conclusion that the modification is substantial?

For example
- Change in currency in which financial asset is denominated
- Terms of financial asset may include new features that will result in contractual cash flows that are not solely payments of principal and interest

YES
- Derecognize old financial instrument
- Recognize new financial instrument at fair value

NO

- Does **quantitative** analysis (i.e., 10% test) lead to conclusion that modification is substantial?

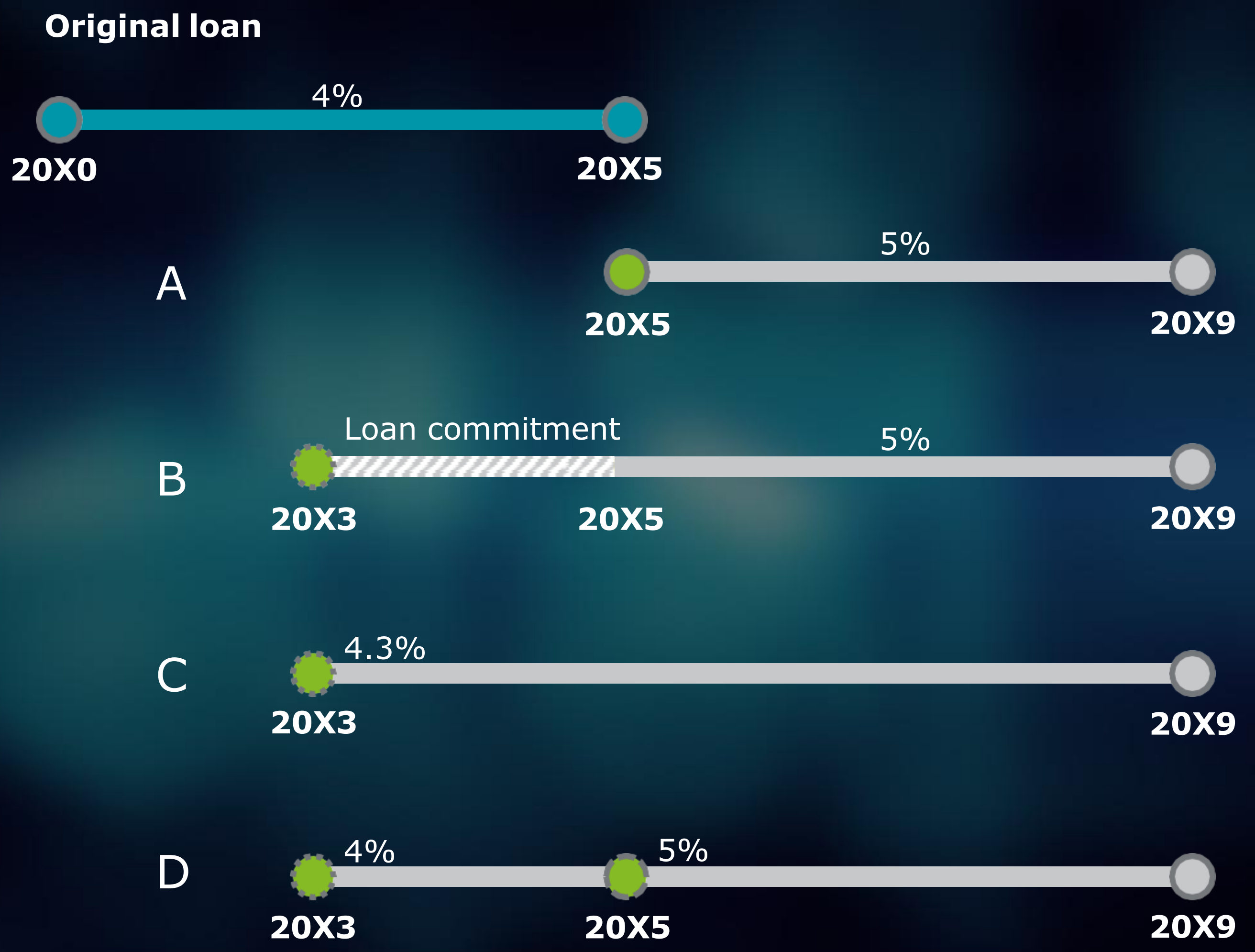
YES
- Derecognize old financial instrument
- Recognize new financial instrument at fair value

NO
- Financial instrument **not** substantially modified
- Re-measure existing financial instrument

Deloitte.

Modification of financial instruments

Derecognition vs. Modification Assessement



Analysis

20x5: New loan
(unless forced extension)

20x3: Loan commitment
20x5: New loan
(both with same initial credit risk)

20x3: Assess whether modification is substantial

20x3: Assess whether modification is substantial

Questions and insights?

Thank you!