

IFRS News

September 2014

IFRS 9 'Financial Instruments' is now complete

Following several years of development, the IASB has finished its project to replace IAS 39 'Financial Instruments: Recognition and Measurement' by publishing IFRS 9 'Financial Instruments (2014)'.

This special edition of IFRS News takes you through the requirements of the new Standard. It covers all of the individual chapters that make up the Standard but focuses in particular on the chapters added in July 2014 dealing with:

- expected credit losses
- the revised classification and measurement requirements.

“IFRS 9 (2014) fundamentally rewrites the accounting rules for financial instruments. A new approach for financial asset classification is introduced, and the now discredited incurred loss impairment model is replaced with a more forward-looking expected loss model. This is all in addition to the major new requirements on hedge accounting that we reported on at the end of 2013.

While IFRS 9's mandatory effective date of 1 January 2018 may seem a long way off, we strongly suggest that companies should start evaluating the impact of the new Standard now. As well as the impact on reported results, many businesses will need to collect and analyse additional data and implement changes to systems.

This special edition of IFRS News will help you to do so by outlining the new Standard's requirements, and the benefits and challenges that it will bring.”

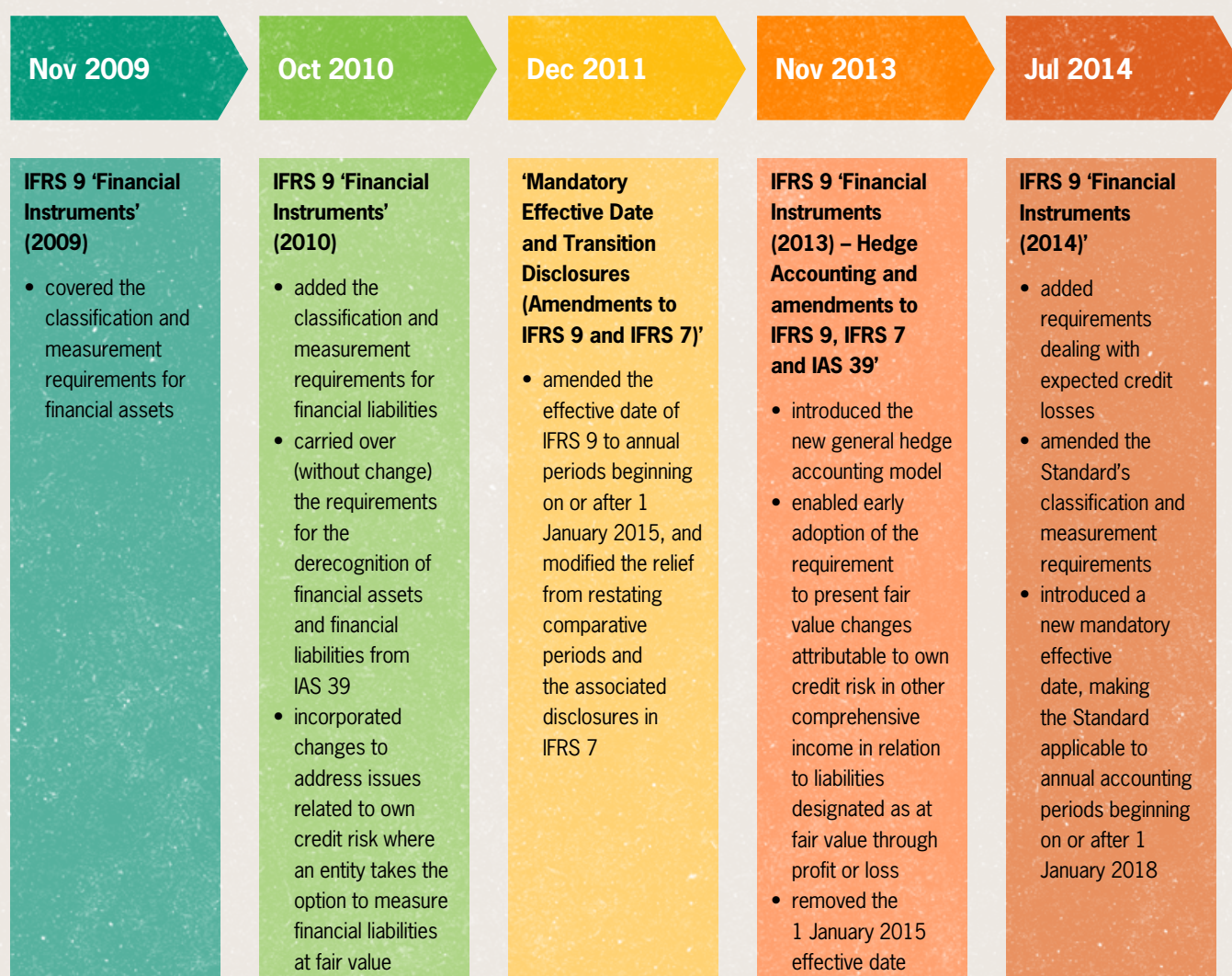
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Background

IFRS 9 replaces IAS 39, the previous Standard dealing with the recognition and measurement of financial instruments.

The IASB decided to replace IAS 39 in response to strong criticisms of that Standard in the aftermath of the global financial crisis of 2007/8. The first key milestone was reached in November 2009 with the publication of new classification and measurement requirements for financial assets (IFRS 9 (2009)). At that time it appeared that the remaining requirements would follow quickly. Perhaps unsurprisingly, given the complex and often controversial nature of the subject matter, the completion of IFRS 9 has however taken almost five more years. The timeline illustrates the history of the Standard and the various changes and revisions which have been made to it.



Structure of IFRS 9 (2014)

To allow for this phased completion, IFRS 9 was divided into a number of Chapters. The following table summarises the content of each chapter and how it compares to IAS 39. Further details on areas where the changes are significant are provided in the following pages.

No.	Chapter title	Comparison to IAS 39	Further detail
1.	Objective	<ul style="list-style-type: none"> develops the objective that was contained in IAS 39 IFRS 9 (2014) describes its objective in terms of presenting relevant and useful information for the assessment of the amounts, timing and uncertainty of an entity's future cash flows 	N/A
2.	Scope	<ul style="list-style-type: none"> the scope of IFRS 9 (2014) is substantially the same as that of IAS 39 one difference is that all loan commitments are within the scope of IFRS 9 (2014)'s impairment requirements. IAS 39 excluded some loan commitments from its scope, requiring them to be accounted for under IAS 37 	see page 13
3.	Recognition and derecognition	<ul style="list-style-type: none"> the requirements in IFRS 9 have been incorporated largely unchanged from IAS 39 	see page 12
4.	Classification		
	4.1 Classification of financial assets	<ul style="list-style-type: none"> replaces IAS 39's measurement categories with the following three categories: <ul style="list-style-type: none"> – fair value – fair value through other comprehensive income – amortised cost 	see pages 4-10
	4.2 Classification of financial liabilities	<ul style="list-style-type: none"> the requirements in IFRS 9 are largely the same as those in IAS 39. Where an entity chooses to measure its own debt at fair value however, IFRS 9 now requires the amount of the change in fair value due to changes in the entity's own credit risk to be presented in other comprehensive income 	see page 11
	4.3 Embedded derivatives	<ul style="list-style-type: none"> for liability host contracts, the requirements for separating embedded derivatives are similar to those in IAS 39 for asset host contracts however, IFRS 9's classification requirements are applied to the combined (hybrid) instrument in its entirety 	see page 5
	4.4 Reclassification	<ul style="list-style-type: none"> reclassifications of financial assets are only permitted under IFRS 9 when an entity changes its business model for managing financial assets financial liabilities are not permitted to be reclassified 	see page 10
5.	Measurement		
	5.1 Initial measurement	<ul style="list-style-type: none"> similar to IAS 39 	N/A
	5.2 Subsequent measurement of financial assets	<ul style="list-style-type: none"> subsequent measurement may differ from IAS 39 due to IFRS 9's different classification and expected credit loss requirements 	
	5.3 Subsequent measurement of financial liabilities		
	5.4 Amortised cost measurement of financial assets		
	5.5 Expected credit losses	<ul style="list-style-type: none"> fundamental changes have been made compared to IAS 39's impairment requirements in order to use more forward-looking information 	see pages 13-17
	5.6 Reclassification of financial assets	<ul style="list-style-type: none"> new requirements reflect IFRS 9's different classification requirements 	
	5.7 Gains and losses	<ul style="list-style-type: none"> new requirements reflect IFRS 9's different classification requirements but are similar in nature to IAS 39 	
6.	Hedge accounting	<ul style="list-style-type: none"> fundamental changes have been made in order to: <ul style="list-style-type: none"> – increase the eligibility of both hedged items and hedging instruments – introduce a more principles-based approach to assessing hedge effectiveness 	see pages 18-19
7.	Effective date and transition	<ul style="list-style-type: none"> IFRS 9 (2014) is effective from 1 January 2018 transition requirements reflect the complex nature of the Standard 	see pages 21-23

Classification and measurement of financial assets

The classification and measurement of financial assets was one of the areas of IAS 39 that received the most criticism during the financial crisis.

In publishing the original 2009 version of IFRS 9, the IASB therefore made a conscious effort to reduce the complexity in accounting for financial assets by having just two categories (fair value and amortised cost). However following comments that having just two categories created too sharp a dividing line and failed to reflect the way many businesses manage their financial assets, an additional category was added in July 2014 when IFRS 9 (2014) was published.

Classification

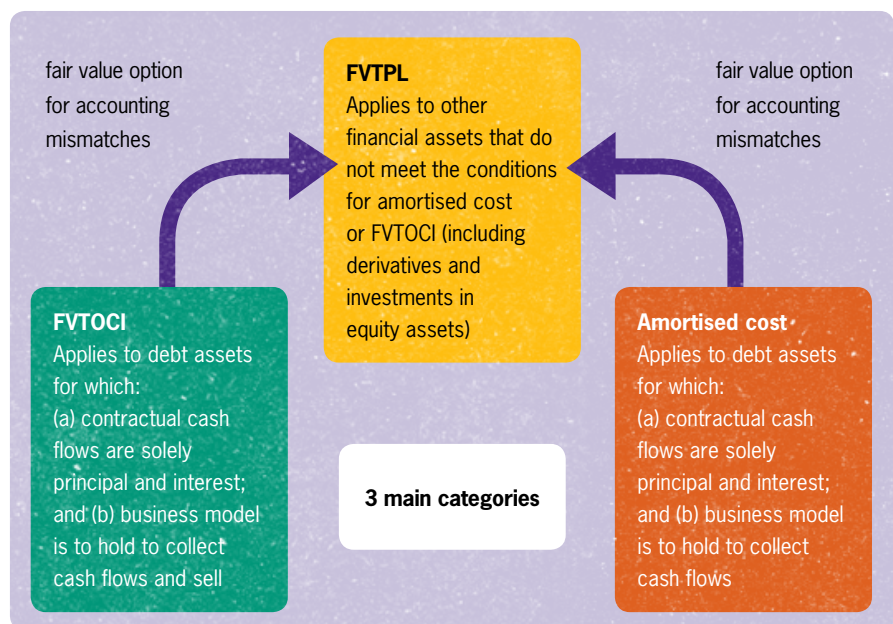
Under IFRS 9 each financial asset is classified into one of three main classification categories:

- amortised cost
- fair value through other comprehensive income (FVTOCI)
- fair value through profit or loss (FVTPL).

The classification is determined by both:

- a) the entity's business model for managing the financial asset ('business model test'); and
- b) the contractual cash flow characteristics of the financial asset ('cash flow characteristics test').

The following diagramme summarises the three main categories and how the business model and cash flow characteristics determine the applicable category:



In addition, IFRS 9 contains an option which allows an entity to designate a financial asset at fair value through profit or loss and an additional option to classify investments in equity instruments in a special 'equity – FVTOCI' category (see page 9).

Practical insight – IFRS 9 and embedded derivatives

IFRS 9 eliminates IAS 39's requirement to separate embedded derivatives within hybrid contracts if the host contract is an asset within the scope of IFRS 9. Instead, the classification requirements of IFRS 9 are applied to the combined (or hybrid) instrument in its entirety. As a result, many (but not all) financial assets that contained embedded derivatives in accordance with IAS 39 will 'fail' IFRS 9's cash flow characteristics test and will therefore be classified at fair value in their entirety.

If a host instrument that contains an embedded derivative is a financial liability or is outside the scope of IFRS 9 (such as most contracts to buy or sell goods or services), the entity must determine whether the embedded derivative needs to be separated. The guidance in IFRS 9 for making this decision is carried forward into IFRS 9 unchanged from IAS 39.

The business model test

IFRS 9 uses the term 'business model' in terms of how financial assets are managed and the extent to which cash flows will result from collecting contractual cash flows, selling financial assets or both. The Standard positively defines two such 'business models':

- a business model whose objective is to hold the financial asset in order to collect contractual cash flows ('hold to collect')
- a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets ('hold to collect and sell').

An entity's business model for managing financial assets:

- reflects how financial assets are managed to generate cash flows
- is determined by the entity's key management personnel
- does not depend on management's intentions for individual instruments (it is based on a higher level of aggregation that reflects how groups of financial assets are managed together to achieve a particular business objective).

Practical insight – more than one business model?

An entity may have more than one business model for managing its financial instruments. For example, where an entity holds a portfolio of investments that it manages to collect contractual cash flows and another portfolio that it manages by trading to realise fair value changes. The Standard also notes that in some circumstances, a portfolio of assets might need to be split into sub-portfolios to reflect how an entity manages them. For example, if an entity holds a portfolio of mortgage loans and manages some of the loans to collect contractual cash flows while having an objective of selling other loans within the portfolio in the near term.

Overall an entity's business model for managing the financial assets is a matter of fact and is typically observable through particular activities that the entity undertakes to achieve the objectives of the business model. The Standard emphasises that it should be determined by considering all relevant and objective evidence. Factors that might be considered in doing this include:

- how performance is evaluated and reported to the entity's key management personnel
- how risks affect performance of the business model and how those risks are managed
- how managers of the business are compensated (eg whether compensation is based on fair value of assets managed or on contractual cash flows collected).

Determining the model involves expectations about the future actions of the entity but should not be based on scenarios that the entity does not reasonably expect to occur ('worst case' or 'stress test' scenarios for example are excluded when determining the model).

Hold to collect business model

In determining whether cash flows are going to be realised by collecting the financial assets' contractual cash flows, it is necessary to consider

- the frequency, value and timing of sales in prior periods
- the reasons for those sales and
- expectations about future sales activity.

Sales in themselves however do not determine the business model and should not be considered in isolation. It is not necessary then for an entity to hold all of the instruments until maturity. Rather, information about past sales and expectations about future sales provide evidence related to how the entity's stated objective for managing the financial assets is achieved and, specifically, how cash flows are realised.

Hold to collect and sell business model

Entities will need to exercise an element of judgement in determining whether they have a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. This is because there is no threshold for the frequency or value of sales that must occur in this business model.

Practical insight – sales that may be consistent with a business model of holding assets to collect cash flows:

- sales due to an increase in the assets' credit risk (because the credit quality of financial assets is relevant to the entity's ability to collect contractual cash flows)
- sales made close to the maturity of the financial assets where the proceeds from the sales approximate the collection of the remaining contractual cash flows.

What can be said with relative certainty however is that compared to a business model whose objective is to hold financial assets to collect contractual cash flows, this business model will typically involve greater frequency and value of sales. This is because selling financial assets is integral to achieving the business model's objective instead of being only incidental to it.

There are various objectives that may be consistent with this type of business model. For example, the objective of the business model may be to manage everyday liquidity needs, to maintain a particular interest yield profile or to match the duration of the financial assets to the duration of the liabilities that those assets are funding.

Other business models (resulting in fair value through profit or loss classification)

Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (although note the election relating to investments in equity instruments). IFRS 9 gives a number of examples of such models, including one where:

- an entity manages the financial assets with the objective of realising cash flows through the sale of the assets
- an entity manages and evaluates a portfolio of financial assets on a fair value basis
- a portfolio of financial assets that meets the definition of held for trading is not held to collect contractual cash flows or held both to collect contractual cash flows and to sell financial assets.

The cash flow characteristics test

The second condition for classification in the amortised cost classification or FVTOCI category can be labelled the 'solely payments of principal and interest' (SPPI) test. The requirement is that the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Practical insight – asset-backed loans and the SPPI test

In some circumstances it will be relatively easy to determine if cash flows are solely payments of principal and interest. For example a bond that pays interest at 10% less an adjustment equal to twice the rate on a benchmark such as LIBOR, clearly contains leverage and will therefore fail the test. In more complex scenarios, however, it may be necessary for the holder of the asset to 'look through' to the particular underlying assets or cash flows to determine whether the contractual cash flows of the asset being classified are payments of principal and interest on the principal amount outstanding. Examples of such situations could include non-recourse loans or asset backed loan notes that are sub-ordinated to more senior tranches.

For the purpose of applying this test, 'principal' is the fair value of the financial asset at initial recognition.

'Interest' consists of consideration for:

- the time value of money
- the credit risk associated with the principal amount outstanding during a particular period of time
- other basic lending risks and costs
- a profit margin.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement.

Contractual terms that introduce exposures to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, fail the SPPI test. Similarly contracts that increase leverage fail the test as they increase the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest.

Consideration for the time value of money

In order to assess whether an element of interest provides consideration for only the passage of time, an entity applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

In some cases, the time value of money element may be modified (eg if an asset's interest rate is periodically reset to an average of particular short- and long-term interest rates). In such cases, an entity must assess the modification to determine whether the contractual cash flows represent solely payments of principal and interest on the principal amount outstanding. In doing this the objective is to determine how different the contractual (undiscounted) cash flows could be from the (undiscounted) cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). In some cases it will be possible to do this by performing a qualitative assessment but in more complicated cases, a quantitative assessment may be necessary.

Practical insight – government-set interest rates

In some jurisdictions, the government or a regulatory authority sets interest rates. As a result, in some cases the objective of the time value of money element is not to provide consideration for only the passage of time. However, despite IFRS 9's normal requirements, the Standard guides that for the purpose of applying the 'solely payments of principal and interest' test, a regulated interest rate shall be considered a proxy for the time value of money element, if that regulated interest rate provides consideration that is broadly consistent with the passage of time and does not provide exposure to risks or volatility in the contractual cash flows that are inconsistent with a basic lending arrangement.

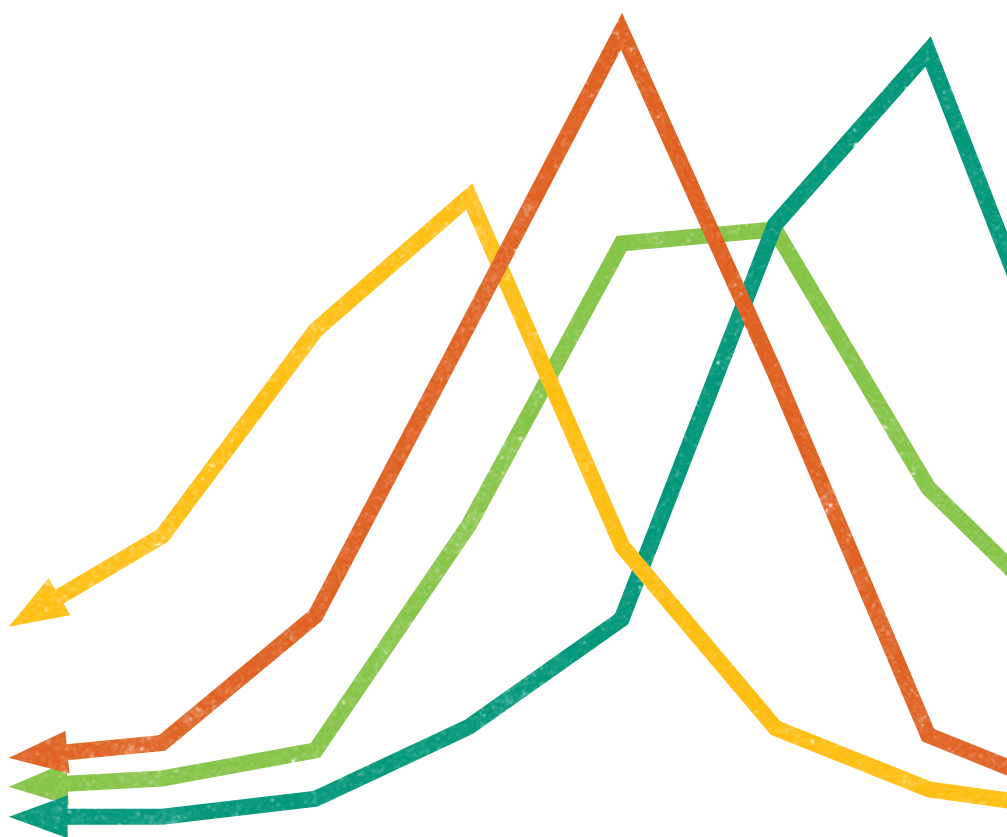
Practical insight – examples of the SPPI test

Examples of instruments meeting the SPPI test:

- an instrument with a stated maturity date where the cash flows are entirely fixed, or where interest is at a variable rate or a rate which is a combination of fixed and floating
- a bond with a stated maturity date where principal and interest are linked (on a non-leveraged basis) to an inflation index of the currency in which the instrument is issued
- a variable rate instrument with a stated maturity date that permits the borrower to choose the market interest rate on an ongoing basis
- a bond with a stated maturity date which pays a variable market interest rate subject to a cap
- a full recourse loan secured by collateral.

Examples of instruments that do not meet the SPPI test:

- derivatives
- investments in equity instruments
- a convertible bond
- a loan that pays an inverse floating interest rate
- an instrument whose cash flows are based on asset prices or an index.



Applying the SPPI test

As discussed above, IFRS 9 provides extensive guidance on the SPPI test. The concept of SPPI is to capture instruments that are basic lending arrangements. However, IFRS 9 also introduces a number of practical expedients and reliefs with the effect that some (but not all) non-basic features do not violate the SPPI test. The following diagramme summarises the process of evaluating whether an asset meets the SPPI test.



Optional classifications

FVTOCI option for investments in equity instruments ('equity FVTOCI')

In addition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading and is not contingent consideration of an acquirer in a business combination.

Moreover, in contrast to the FVTOCI category for debt instruments (and IAS 39's available-for-sale category):

- gains and losses recognised in other comprehensive income are not subsequently transferred to profit or loss (sometimes referred to as 'recycling'), although the cumulative gain or loss may be transferred within equity
- equity FVTOCI instruments are not subject to any impairment accounting.

Where this election is made, dividends are still recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment.

Fair value option

IFRS 9 contains a modified version of IAS 39's 'fair value option' – the option to designate a financial asset at fair value through profit or loss in some circumstances.

At initial recognition, an entity may designate a financial asset as measured at fair value through profit or loss that would otherwise be measured subsequently at amortised cost or at fair value through other comprehensive income. Such a designation can only be made, however, if it eliminates or significantly reduces an 'accounting mismatch' that would otherwise arise.

Practical insight – investments in unquoted equity instruments

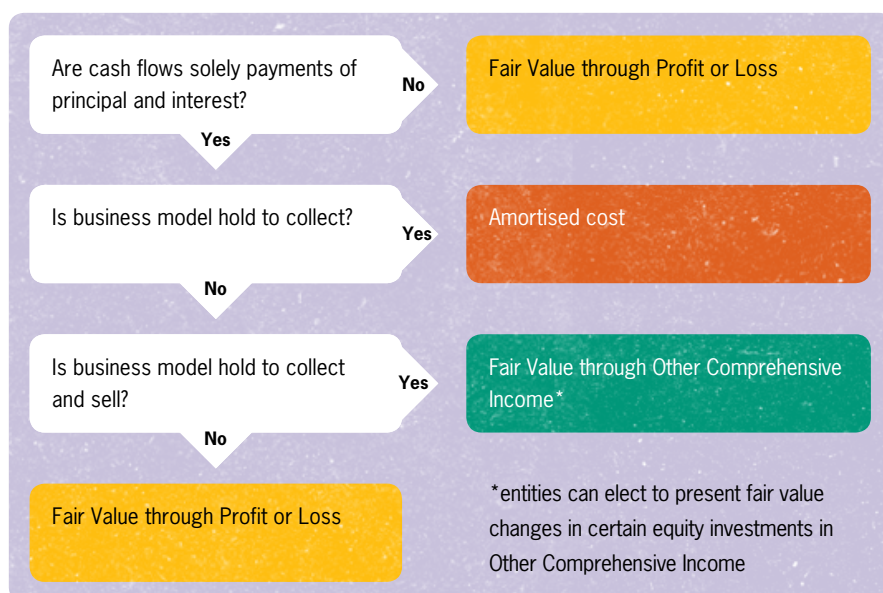
Unlike IAS 39, it is not possible under IFRS 9 to measure investments in equity instruments at cost where they do not have a quoted market price and their fair value cannot be reliably measured.

Although IFRS 9 requires such investments to be measured at fair value, it notes that, in limited circumstances, cost may be an appropriate estimate of fair value. IFRS 9 provides a list of indicators that cost might not be representative of fair value.

For example, an entity might use the fair value option if it has liabilities under insurance contracts whose measurement incorporates current information and financial assets that it considers to be related and that would otherwise be measured at either fair value through other comprehensive income or amortised cost.

Summary of classification model

The following diagramme summarises IFRS 9's classification model for financial assets:



Accounting and presentation

The table to the right summarises the accounting and presentation requirements that apply to IFRS 9's classification categories.

Reclassification

IFRS 9 requires an entity to reclassify financial assets when, and only when, it changes its business model for managing its financial assets.

Changes to an entity's business model are expected to be very infrequent as they will only occur when an entity significantly changes the way it does business. Such changes will be determined by an entity's senior management and must be demonstrable to external parties.

IFRS 9 makes it clear that the following are not changes in business model:

- a change in intention related to particular financial assets
- a temporary disappearance of a particular market for financial assets
- a transfer of financial assets between parts of the entity with different business models.

Category	Balance sheet accounting	Statement of comprehensive income
Amortised cost	<ul style="list-style-type: none"> • amortised cost • impairment allowance 	<ul style="list-style-type: none"> • presented in P&L: <ul style="list-style-type: none"> – interest calculated using the effective interest method – initial impairment allowance and subsequent changes
FVTOCI	<ul style="list-style-type: none"> • fair value 	<ul style="list-style-type: none"> • changes in fair value presented in OCI • presented in P&L: <ul style="list-style-type: none"> – interest calculated using the effective interest method – initial impairment allowance and subsequent changes (with offsetting entry presented in OCI) – foreign exchange gains and losses • cumulative FV gains/losses reclassified to P&L on derecognition or reclassification
FVTPL	<ul style="list-style-type: none"> • fair value 	<ul style="list-style-type: none"> • changes in fair value presented in P&L
Equity FVTOCI	<ul style="list-style-type: none"> • fair value 	<ul style="list-style-type: none"> • changes in fair value presented in OCI • no reclassification to P&L on disposal • dividends recognised in P&L (unless they clearly represent a part-recovery of cost)

Practical insight – assessing the impact

The new Standard, with its more principle-based approach to classification and the elimination of IAS 39's embedded derivative requirements for assets, should help to reduce the complexity in accounting for financial instruments. In the short-term however, it may lead to considerable implementation effort, with companies needing to re-evaluate the classification of all financial assets within the scope of IAS 39.

In addition to the impact on a company's financial position and reported results, changes to information systems may well be necessary. Because the definition of a financial instrument is so wide, most companies can expect to be affected. Even companies whose financial assets are limited to normal trade receivables and bank deposits will be affected to some extent.



Classification and measurement of financial liabilities

In October 2010, the IASB amended IFRS 9 to incorporate requirements on the classification and measurement of financial liabilities. Most of IAS 39's requirements were carried forward unchanged to IFRS 9. Changes were however made to address issues related to own credit risk where an entity takes the option to measure financial liabilities at fair value (see below).

Majority of requirements retained

Under IAS 39 most liabilities are measured at amortised cost or bifurcated into a host instrument measured at amortised cost, and an embedded derivative, measured at fair value. Liabilities that are held for trading (including all derivative liabilities) are measured at fair value. These requirements have been retained.

Own credit risk

The requirements related to the fair value option for financial liabilities have however been changed to address own credit risk. Where an entity chooses to measure its own debt at fair value, IFRS 9 now requires the amount of the change in fair value due to changes in the entity's own credit risk to be presented in other comprehensive income. This change addresses the counterintuitive way in which a company in financial trouble was previously able to recognise a gain based on its theoretical ability to buy back its own debt at a reduced cost.

Practical insight – assessing the impact

The IASB's decision to change the accounting for own credit risk addresses an issue where many commentators felt that IAS 39 had resulted in counter-intuitive outcomes.

The decision to retain most other features of financial liability accounting will also be popular among preparers. The consequence, however, is that IFRS 9's requirements on financial liabilities are quite different to the new classification and measurement principles for assets – including the retention of the embedded derivatives rules for liabilities.

The only exception to the new requirement is where the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss, in which case all gains or losses on that liability are to be presented in profit or loss.

In November 2013, the IASB amended IFRS 9 to allow these changes to be applied in isolation without the need to change any other accounting for financial instruments.

Elimination of the exception from fair value measurement for certain derivative liabilities

IFRS 9 also eliminates the exception from fair value measurement for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument. Under IAS 39, if those derivatives were not reliably measurable, they were required to be measured at cost. IFRS 9 requires them to be measured at fair value.

Reclassification

IFRS 9 prohibits an entity from reclassifying any financial liability.

Derecognition of financial assets and financial liabilities

In October 2010, the requirements in IAS 39 related to the derecognition of financial assets and financial liabilities were incorporated unchanged into IFRS 9.

The IASB had originally envisaged making changes to the derecognition requirements of IAS 39. In the summer of 2010, however, the IASB revised its strategy, having concluded that IAS 39's requirements in this area had performed reasonably during the financial crisis. IAS 39's derecognition requirements have therefore been incorporated into IFRS 9 unchanged, while new disclosure requirements were instead issued in October 2010 as an amendment to IFRS 7 'Financial Instruments: Disclosures'.

Practical insight – modification of financial liabilities

IFRS 9 retains IAS 39's requirements on how to deal with the modification of liabilities. Under these requirements (which were previously contained in IAS 39.40), a modification to the terms of a financial liability should be accounted for as follows:

- a substantial modification should be accounted for as an extinguishment of the existing liability and the recognition of a new liability ('extinguishment accounting')
- a non-substantial modification should be accounted for as an adjustment to the existing liability ('modification accounting').

In following these requirements, a modification is always substantial if the present value of the cash flows under the new terms, including net fees paid or received, differs by 10% or more from the present value of the remaining cash flows of the existing liability.

Accounting by the asset holder

Like IAS 39 before it, IFRS 9 does not provide guidance on whether a debt restructuring is treated as a derecognition event on the asset side. This can lead to questions of interpretation, including in the notable case of the restructuring of Greek Government Bonds (GGBs) in 2012. The GGB case was referred to the IFRS Interpretations Committee (IFRIC) which, while declining to issue a formal Interpretation, did express a view that derecognition was appropriate on that occasion.

In setting out their reasoning IFRIC noted that, in the absence of specific IFRS requirements on a topic, an entity uses its judgement to develop an accounting policy in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. IAS 8.11 requires that, in determining an appropriate accounting policy, consideration must first be given to the requirements in IFRSs that deal with similar and related issues. Accordingly, given that GGB modification was clearly substantial, it should be treated as a derecognition event by the asset-holders by analogy to the guidance on the liability side.

Expected credit losses

In July 2014, the IASB issued IFRS 9's impairment requirements, containing detailed guidance on the recognition of expected credit losses. The requirements affect all entities that hold debt-type financial assets or issue commitments to extend credit that are not accounted for at FVTPL.

In publishing these requirements, the IASB aims to rectify what was perceived to be a major weakness in accounting during the financial crisis of 2007/8, namely the recognition of credit losses at too late a stage. IAS 39's 'incurred loss' model delayed the recognition of credit losses until objective evidence of a credit loss event had been identified. In addition, IAS 39 was criticised for requiring different measures of impairment for similar assets depending on their classification.

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses. Also, in contrast to IAS 39, the amount of loss allowance is not affected by the classification of the asset at amortised cost or FVTOCI.

Recognition of credit losses are no longer dependent on the entity first identifying a credit loss event. Instead an entity should consider a broader range of information when assessing credit risk and measuring expected credit losses, including:

- past events, such as experience of historical losses for similar financial instruments
- current conditions
- reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial instrument.

Instruments within the scope of IFRS 9's impairment provisions:

- loans and other debt-type financial assets measured at amortised cost
- loans and other debt-type financial assets measured at fair value through other comprehensive income
- trade receivables
- lease receivables accounted for under IAS 17 'Leases'
- contract assets recognised and measured under IFRS 15 'Revenue from Contracts with Customers'
- loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Practical insight – loan commitments and financial guarantees

Under IAS 39 some loan commitments (eg commitments to provide a loan at a below-market interest rate) are classified as at FVTPL, while others are outside IAS 39's scope and are measured in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. Under IFRS 9, issued loan commitments that were accounted for under IAS 37 will instead be within the scope of the new expected loss requirements. Issued loan commitments at a below-market rate will be measured at the higher of the expected loss amount and the initial fair value less amortisation.

Financial guarantee contracts are also within the scope of IFRS 9's expected loss requirements for the issuer, unless they have previously been accounted for as insurance contracts under IFRS 4 'Insurance Contracts' and the entity elects to continue to account for them as such. This election is irrevocable and cannot be applied to an embedded derivative where the derivative is not itself a contract within the scope of IFRS 4.

For financial institutions that manage off-balance sheet loan commitments and financial guarantee contracts using the same credit risk management approach and information systems as loans and other on-balance sheet items, this might prove to be a simplification. For other institutions that issue these types of instruments, the new requirements could be a significant change, necessitating adjustments to systems and monitoring processes for financial reporting purposes.

In applying this more forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low.

‘12-month expected credit losses’ are recognised for the first of these two categories while ‘lifetime expected credit losses’ are recognised for the second category.

An asset moves from 12-month expected credit losses to lifetime expected credit losses when there has been a significant deterioration in credit quality since initial recognition and the credit risk is more than ‘low’. Hence the ‘boundary’ between 12-month and lifetime losses is based both on the change in credit risk and the absolute level of risk at the reporting date.

There is also a third stage in the model. For assets for which there is

What are ‘12-month expected credit losses’?

- 12-month expected credit losses are a portion of the lifetime expected credit losses
- they are calculated by multiplying the probability of a default occurring on the instrument in the next 12 months by the total (lifetime) expected credit losses that would result from that default
- they are not the expected cash shortfalls over the next 12 months. They are also not the credit losses on financial instruments that are forecast to actually default in the next 12 months.

What are ‘lifetime expected credit losses’?

- lifetime expected credit losses are the expected shortfalls in contractual cash flows, taking into account the potential for default at any point during the life of the financial instrument.

objective evidence of impairment, interest is calculated based on the amortised cost net of the loss provision (this stage is essentially the same as the incurred loss model used in IAS 39).

It is envisaged that entities will be able to use their current risk management systems as a basis for implementing these requirements.

Stage 1: Performing

Stage 2: Under-performing

Stage 3: Non-performing

The three-stage process

The three-stage process reflects the general pattern of deterioration of credit quality of a financial instrument and is illustrated in more detail below.

This three-stage model is symmetrical – in other words financial assets are reclassified back from stages 2 or 3 (lifetime expected losses) to stage 1 (12-months expected losses) if an earlier significant deterioration in credit quality subsequently reverses, or the absolute level of credit risk becomes low.

Deterioration in credit quality

Stage 1 – Performing

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date
- 12-month expected credit losses are recognised
- interest revenue is calculated on the gross carrying amount of the asset.

Stage 2 – Under-performing

- financial instruments that have deteriorated significantly in credit quality since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of a credit loss event
- lifetime expected credit losses are recognised
- interest revenue is still calculated on the asset’s gross carrying amount.

Stage 3 – Non-performing

- financial assets that have objective evidence of impairment at the reporting date
- lifetime expected credit losses are recognised
- interest revenue is calculated on the net carrying amount (ie reduced for expected credit losses).

Credit risk = low

Credit risk > low

Exceptions to the general model

There are two exceptions to the general impairment model outlined above:

- a specific approach for purchased or originated credit-impaired financial assets
- a simplified approach for trade receivables, contract assets and lease receivables

We discuss both of these exceptions below.

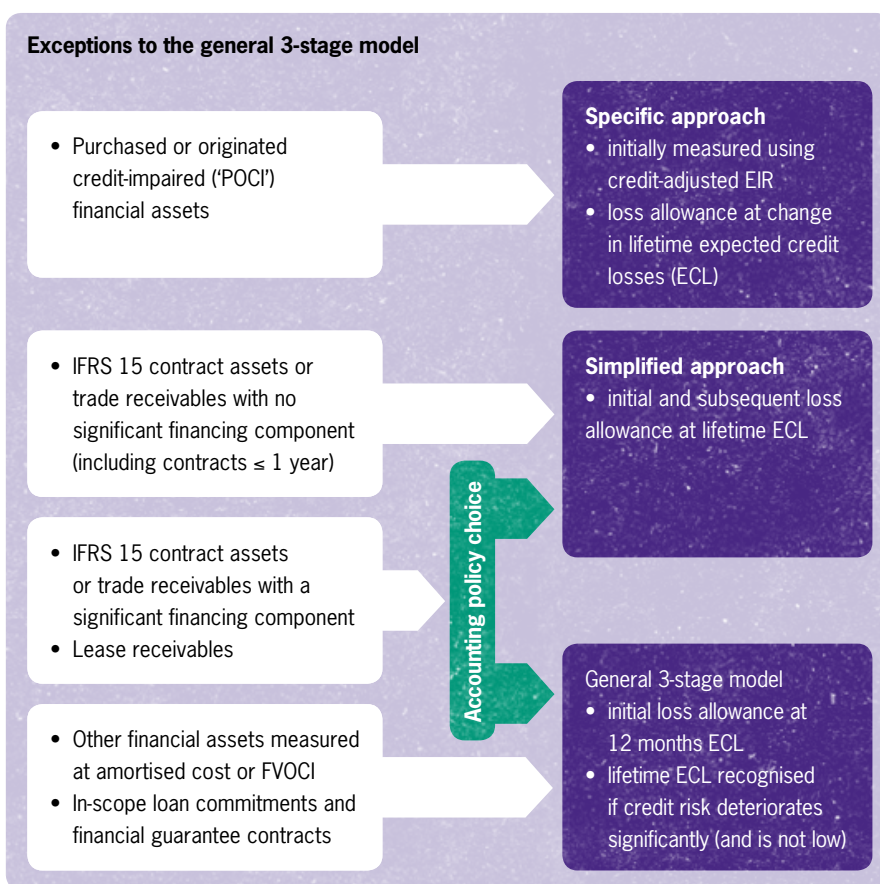
Purchased or originated credit-impaired financial assets

IFRS 9 contains a specific approach for purchased or originated credit-impaired financial assets which differs from the general model for financial assets.

Under this specific approach, an entity is required to apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. Thereafter it only recognises the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance. The amount of the change in lifetime expected credit losses is recognised in profit or loss as an impairment gain or loss.

A simplified approach for trade receivables, contract assets and lease receivables

In developing IFRS 9's impairment requirements, there was concern that the process of determining whether to recognise 12-month or lifetime expected credit losses was not justifiable for instruments such as trade receivables and lease receivables.



As a result, the IASB has included the following simplifications in the final requirements:

- for trade receivables and contract receivables of one year or less or ones which do not contain a significant financing component, an entity should always recognise a loss allowance at an amount equal to lifetime expected credit losses
- for trade receivables and contract receivables which do contain a significant financing component (in accordance with IFRS 15), entities are allowed to choose to always recognise a loss allowance at an amount equal to lifetime expected credit losses

- for lease receivables within the scope of IAS 17, an entity is similarly allowed to choose as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses.

The accounting policy choice applies independently for trade receivables with a significant financing component, lease receivables and contract assets with a significant financing component.

Determining significant increases in credit risk

IFRS 9 requires an entity to assess at each reporting date whether the credit risk on a financial instrument has increased significantly since initial recognition.

When making the assessment, an entity shall use the change in the risk of a default occurring over the expected life of the financial instrument, comparing the risk of a default occurring as at the reporting date with the risk of a default occurring as at the date of initial recognition. In doing this an entity should consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. An entity need not undertake an exhaustive search for information when determining whether credit risk has increased significantly since initial recognition.

Where a financial instrument is determined to have low credit risk at the reporting date, it may assume that the credit risk on the instrument has not increased significantly since initial recognition.

Use of historic past due information

In terms of determining whether credit risk has increased significantly since initial recognition, an entity should use reasonable and supportable forward-looking information where that information is available without undue cost or effort. However, when such information is not available without undue cost or effort, an entity may use past due information to determine whether there have been significant increases in credit risk since initial recognition.

Rebuttable presumption for payments more than 30 days past due

Regardless of the way in which an entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Practical insight – what is a 'default'?

The probability of default (PD) and loss given default (LGD) are key concepts in IFRS 9 but the term 'default' is not actually defined. Instead it is for entities to reach their own definition. IFRS 9 does however provide guidance on how this should be done.

The Standard states that when defining default an entity shall apply a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Practical insight – when does a financial instrument have low credit risk?

The credit risk on a financial instrument is considered low for the purpose of IFRS 9, if:

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

To determine whether a financial instrument has low credit risk, an entity may use its internal credit risk ratings or other methodologies that are consistent with a globally understood definition of low credit risk and that consider the risks and the type of financial instruments that are being assessed. An external rating of 'investment grade' is an example of a financial instrument that may be considered as having low credit risk.

Practical insight – collective versus individual assessments

Depending on the nature of the financial instrument in concern and the credit risk information available, an entity may not be able to identify significant changes in credit risk for individual financial instruments before the financial instrument becomes past due. It may therefore be necessary to perform the assessment of significant increases in credit risk on a collective basis in order to ensure that the objective of recognising lifetime expected credit losses when there are significant increases in credit risk is met.

The presumption can be rebutted but only when the reporting entity has reasonable and supportable information available that demonstrates that even if contractual payments become more than 30 days past due, this does not represent a significant increase in the credit risk of a financial instrument. For example where historical evidence demonstrates that there is no correlation between significant increases in the risk of a default occurring and financial assets on which payments are more than 30 days

past due, but rather identifies such a correlation when payments are say more than 45 days past due.

It should be noted that the presumption does not apply when an entity determines that there have been significant increases in credit risk before contractual payments are more than 30 days past due.

Assessing significant increases in credit risk

The following table illustrates some examples of possible data that might be used in determining whether there has been a significant increase in credit risk:

Assume credit risk has not increased significantly if credit risk is low

*Rebuttable presumption that credit risk has increased significantly if >30days past due

Consider reasonable and supportable information available without due cost or effort

Examples of possible data

Internal data

- significant changes in
 - internal price indicators
 - changes in other rates or terms
- actual or expected downgrade to internal credit rating or behaviour score
- expected changes in loan documentation or expected breach of covenant
- past due information (see discussion above).

Borrower-specific external data

- significant changes in:
 - credit spread
 - CDS prices
 - length of time fair value below cost
 - other market information
- actual or expected downgrade to external credit rating
- increases in credit risk of borrower's other instruments
- actual or expected deterioration in borrower's financial performance.

Broader external data

- adverse changes (actual or expected) in borrower's
 - financial performance
 - business, financial or economic conditions
 - regulatory, economic or technological environment
- adverse changes in value or quality of any
 - supporting collateral
 - shareholder guarantee or financial support.

*see discussion on previous page

Measurement of expected credit losses

Under IFRS 9, expected credit losses are a probability-weighted estimate of credit losses (ie the present value of all cash shortfalls) over the expected life of the financial instrument.

An entity may use practical expedients when measuring expected credit losses if they are consistent with IFRS 9's principles. An example of a practical expedient is the calculation of the expected credit losses on trade receivables using a provision matrix.

Practical insight – probability-weighted outcome

IFRS 9 requires the estimate of expected credit losses to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.

In doing this, the purpose is neither to estimate a worst-case scenario nor to estimate the best-case scenario. An estimate of expected credit losses shall however always reflect the possibility that a credit loss occurs and the possibility that no credit loss occurs even if the most likely outcome is no credit loss.

Practical insight – loss allowance for financial assets measured at FVTOCI

It is worth noting that debt-type financial assets measured at Fair Value through Other Comprehensive Income (FVTOCI) are still measured at fair value in the statement of financial position regardless of expected credit losses. The information reported in profit or loss is the same as for financial assets measured at amortised cost, however, a loss allowance on such an instrument does not reduce its carrying amount but is instead recognised in Other Comprehensive Income (OCI). The amounts accumulated in OCI in this way are recycled to profit or loss upon derecognition of the asset.

Hedge accounting

In November 2013, the IASB published Chapter 6 of IFRS 9 'Hedge Accounting'.

IAS 39's hedge accounting requirements had been heavily criticised for containing complex rules which either made it impossible for entities to use hedge accounting or, in some cases, simply put them off doing so. As an example, hedge effectiveness was judged on both a prospective and a retrospective basis, with a 'bright-line' quantitative range of 80-125% being used to assess retrospective effectiveness on a quantitative basis. Anything outside this range resulted in the discontinuance of hedge accounting, leading to profit and loss volatility.

In part this complexity was a reflection of the fact that the hedge accounting requirements were an exception to IAS 39's normal requirements. There was however also a perception that hedge accounting did not properly reflect entities' actual risk management activities, thereby reducing the usefulness of their financial statements. IFRS 9's new requirements look to rectify some of these problems, aligning hedge accounting more closely with entities' risk management activities by:

- increasing the eligibility of both hedged items and hedging instruments
- introducing a more principles-based approach to assessing hedge effectiveness.

Features	Key points
Objective of the Standard	<ul style="list-style-type: none">• to better align hedging from an accounting point of view with entities' underlying risk management activities.
The major changes	<ul style="list-style-type: none">• increased eligibility of hedged items in the following areas:<ul style="list-style-type: none">– risk components– groups of hedged items and net positions– items that include derivatives– equity instruments at fair value through other comprehensive income• increased eligibility of hedging instruments and reduced volatility• revised criteria for hedge accounting qualification and for measuring hedge ineffectiveness<ul style="list-style-type: none">– the '80-125%' quantitative test for measuring hedge effectiveness on a retrospective basis has been eliminated– under IFRS 9, a hedging relationship must meet all of the following requirements:<ol style="list-style-type: none">1) there is an economic relationship between the hedged item and the hedging instrument2) the effect of credit risk does not dominate the value changes that result from that economic relationship3) the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item• a new concept of rebalancing hedging relationships• new requirements restricting the discontinuance of hedge accounting.

As a result, the new requirements should serve to reduce profit or loss volatility. The increased flexibility of the new requirements are however partly offset by entities being prohibited from voluntarily discontinuing hedge accounting and also by enhanced disclosure requirements.

Amid all the change it is easy to forget that some significant areas are unchanged from the previous requirements of IAS 39. These include the following:

- hedge accounting remains an optional choice
- the three types of hedge accounting (fair value hedges, cash flow hedges and hedges of a net investment) remain
- formal designation and documentation of hedge accounting relationships is required
- ineffectiveness needs to be measured and included in profit or loss
- hedge accounting cannot be applied retrospectively.

The Grant Thornton International Ltd IFRS team has published a special edition of IFRS News on IFRS 9's hedge accounting requirements. The special edition takes readers through the key features of the new requirements and gives practical insights into how they may affect entities.

To obtain a copy of the special edition, please get in touch with the IFRS contact in your local Grant Thornton office.



Practical insight – hedge accounting and risk management

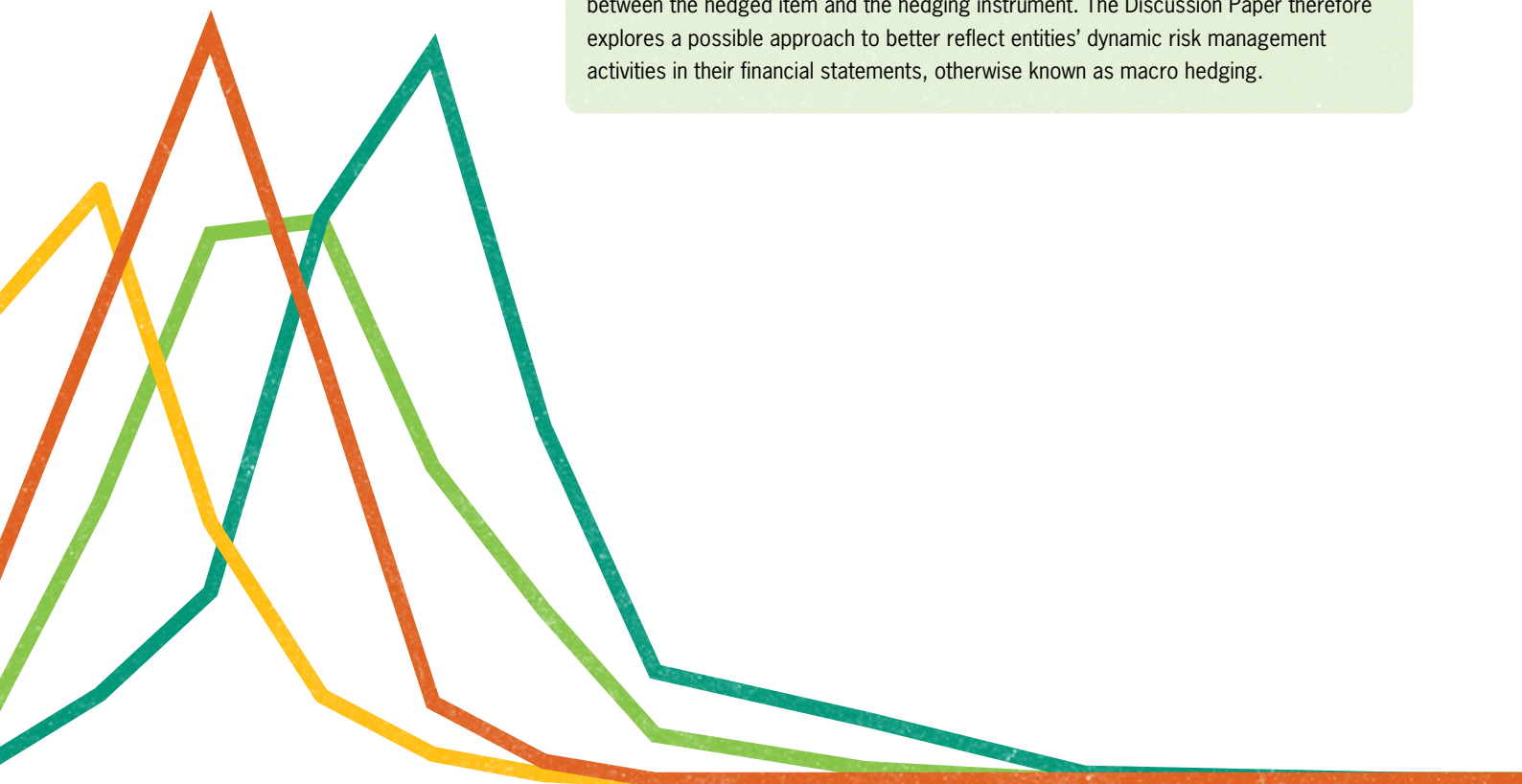
IFRS 9's hedge accounting requirements should make it easier for many entities to reflect their actual risk management activities in their hedge accounting and so reduce profit or loss volatility. Non-financial institutions in particular may be encouraged to apply hedge accounting by IFRS 9's more principle-based approach to hedge accounting.

Watch this space – macro hedging

While IFRS 9 is now complete, the IASB continues to work on some other areas of financial instrument accounting. In April 2014, the IASB published a Discussion Paper entitled 'Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging'.

The issue of this Discussion Paper reflects the fact that many financial institutions and some other entities manage risks, such as interest rate risk, dynamically on a portfolio basis rather than on an individual contract basis. This is a continuous process as the risks that such entities face evolve over time, as does their approach to managing those risks.

Entities that use such hedging have found the current hedge accounting requirements difficult to apply because one-to-one designation is usually required between the hedged item and the hedging instrument. The Discussion Paper therefore explores a possible approach to better reflect entities' dynamic risk management activities in their financial statements, otherwise known as macro hedging.



Disclosures

Disclosure requirements are not included in IFRS 9 itself but in IFRS 7 'Financial Instruments: Disclosures'.

IFRS 9 has amended IFRS 7 extensively, introducing new disclosure requirements relating to IFRS 9's:

- new classification categories
- treatment of own credit risk
- 3-stage impairment model

- new hedge accounting requirements
- transition provisions.

In order to gain a proper understanding of these disclosure requirements, reference should be made to IFRS 7

itself. The text below however gives a flavour of some of the more important new requirements relating to impairment and hedge accounting.

Impairment disclosures

IFRS 7 has been amended to include both extensive qualitative and quantitative disclosure requirements. Some of the more important disclosures include:

Qualitative disclosures

- inputs, assumptions and techniques used to estimate expected credit losses (and changes in techniques)
- inputs, assumptions and techniques used to determine 'significant increase in credit risk' and the reporting entity's definition of 'default'
- inputs, assumptions and techniques used to determine 'credit-impaired' assets
- write-off policies, policies regarding the modification of contractual cash flows of financial assets
- a narrative description of collateral held as security and other credit enhancements.

Quantitative disclosures

- reconciliation of loss allowance accounts showing key drivers for change
- explanation of gross carrying amounts showing key drivers for change
- gross carrying amount per credit risk grade or delinquency
- write-offs, recoveries and modifications
- quantitative information about the collateral held as security and other credit enhancements for credit-impaired assets.

Hedge accounting disclosures

IFRS 9 amends IFRS 7 to introduce extensive new disclosure requirements to compensate in part for the increased flexibility of the new requirements. Following these changes, all of the disclosure requirements on the effects of hedge accounting are to be disclosed in one comprehensive note in the financial statements. This is a reaction to concerns expressed by users that IAS 39's hedge accounting disclosures were not helpful due to the way they were spread about the financial statements. The comprehensive hedge accounting note covers:

- the entity's risk management strategy and how it applies that strategy to manage risk
- how the entity's hedging activities affect the amount, timing and uncertainty of future cash flows
- the effects of hedge accounting on the primary financial statements.

In addition, there are specific disclosures for dynamic strategies and credit risk hedging.

In making the disclosures required by the new Standard, entities should use their judgement to determine:

- how much detail to disclose
- how much emphasis to place on different aspects of the disclosure requirements
- the appropriate level of aggregation or disaggregation
- whether users of financial statements need additional explanations to evaluate the quantitative information disclosed.

Effective date and transition

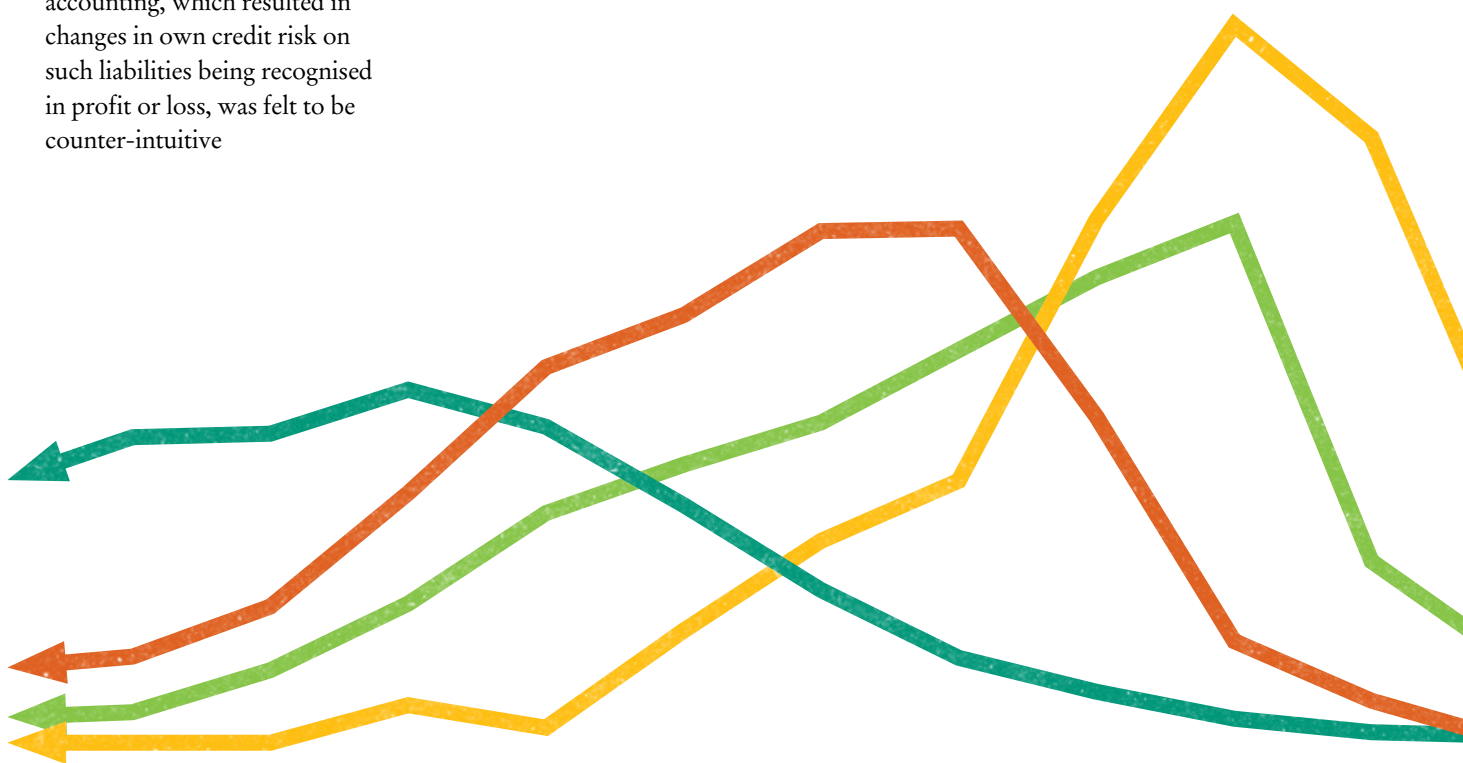
Mandatory effective date

IFRS 9 (2014) is effective for accounting periods beginning on or after 1 January 2018.

Early application

Earlier application is permitted provided that all of the requirements in the Standard are applied at the same time. There are however two exceptions to this 'all or nothing' requirement:

- the requirements allowing entities to present changes in the fair value of a liability due to changes in own credit risk (see earlier in the newsletter) may be applied early in isolation. This is because the previous accounting, which resulted in changes in own credit risk on such liabilities being recognised in profit or loss, was felt to be counter-intuitive
- when an entity first applies IFRS 9 (2014) it may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the new model. The intention is to enable entities to wait for the completion of the IASB's project on macro-hedging before transitioning and thereby avoid successive changes to their hedge accounting practices.



Transition

The transition to IFRS 9 is mainly retrospective, apart from the hedge accounting requirements. However, a purely retrospective approach would be prohibitively complex and potentially impractical. IFRS 9 therefore includes various detailed exemptions and simplifications. The table below summarises the main transition requirements although it will be necessary to refer to the Standard itself for a proper understanding of them.

Features	Key points
Classification and measurement	<ul style="list-style-type: none">• classification is determined at the date of initial application and is applied retrospectively, subject to any specific transition reliefs. The business model test is based on facts and circumstances at the date of initial application• transition provisions cover a number of specific situations including<ul style="list-style-type: none">– where it is impracticable at the date of initial application to assess a modified time value of money element– where it is impracticable at the date of initial application for an entity to assess whether the fair value of a prepayment feature was insignificant– the measurement of a hybrid contract at fair value where fair value had not previously been measured– designating a financial asset at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch– designating an investment in an equity investment at fair value through other comprehensive income– revocation of a previous designation of a financial asset or liability as measured at fair value through profit or loss– applying the effective interest rate method where to do so retrospectively is impractical– where an investment in an equity instrument (or a derivative linked to one) has previously been accounted for at cost due to the lack of a quoted price in an active market– own credit risk• an entity need not restate prior periods, and is only permitted to do so if this is possible without using hindsight. If an entity does not restate prior periods any differences in carrying amount are recognised in opening retained earnings at the beginning of the annual period that includes the date of initial application• for interim financial reports, an entity need not apply the requirements in the Standard to interim periods prior to the date of initial application if it is impracticable to do so.
Impairment	<ul style="list-style-type: none">• the impairment provisions are to be applied retrospectively subject to certain exceptions• at the date of initial application, an entity shall use reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that a financial instrument was initially recognised and compare that to the credit risk at the date of initial application• if, at the date of initial application, it would require undue cost or effort to determine whether there has been a significant increase in credit risk in a financial instrument since initial recognition, then lifetime expected credit losses are recognised until the instrument is derecognised (unless that financial instrument is low credit risk).
Hedge accounting	<ul style="list-style-type: none">• the hedge accounting requirements are applied prospectively subject to exceptions applying to the following specific areas:<ul style="list-style-type: none">– the accounting for the time value of options– the accounting for the forward element of forward contracts (optional exception to prospective accounting)– novation of hedging instruments due to changes in clearing counterparties as a consequence of laws or regulations• to apply hedge accounting from the date of initial application of the hedge accounting requirements, all qualifying criteria must be met as at that date• hedging relationships that qualified for hedge accounting in accordance with IAS 39 and also qualify for hedge accounting in accordance with IFRS 9 (after taking account of any rebalancing on transition) are regarded as continuing hedging relationships• when an entity first applies IFRS 9, it may choose to continue to apply the hedge accounting requirements of IAS 39. This is to allow for the completion of the IASB's project on macro hedging (see separate note earlier in the newsletter).

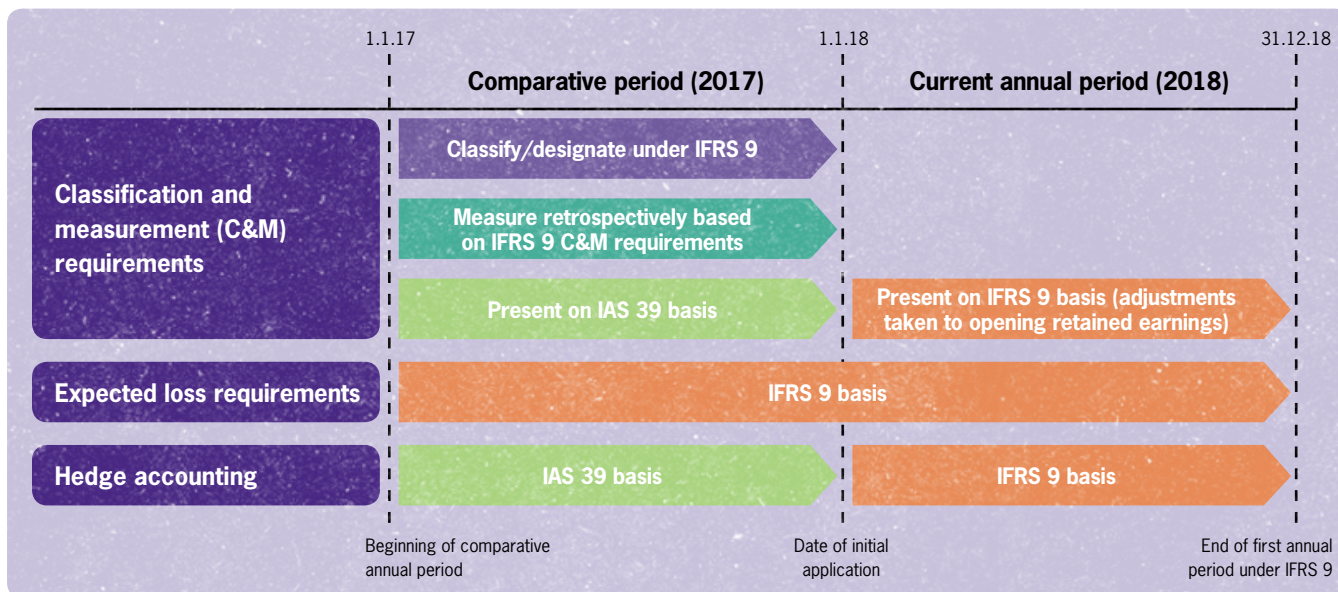
Practical insight – the date of initial application

The date of initial application is a key date in the transition to IFRS 9. The Standard provides some flexibility regarding the selection of this date, stating merely that it is the date when an entity first applies IFRS 9 and must be the beginning of a reporting period after issue of the Standard. Accordingly, it seems this date could be the start of either an annual or an interim reporting period.

Depending on the entity's chosen approach to applying IFRS 9, there can be more than one date of initial application because of the way the Standard has been issued in phases (see earlier in the newsletter).

The following diagramme summarises at a high level the transition process for an entity that:

- first applies IFRS 9 in the annual period ending 31 December 2018
- determines its date of initial application as 1 January 2018
- elects not to restate comparatives (or is ineligible to do so).



Entities that have applied earlier versions of the Standard

If an entity has applied IFRS 9 (2009), IFRS 9 (2010) or IFRS 9 (2013) early, it is required to apply IFRS 9's transition requirements at the relevant date of initial application. It is not possible to apply the transition requirements again on the adoption of a later version of the Standard.

Due to the way that IFRS 9 (2014) has changed the classification and measurement requirements of the Standard however, it has been necessary to make some limited adjustments to this general rule. The adjustments are that:

- an entity shall revoke its previous definition of a financial asset or a financial liability as measured at fair value through profit or loss where that designation was previously made to eliminate or significantly reduce an accounting mismatch under the provisions of a previous version of the Standard but this is no longer the case following the changes made by IFRS 9 (2014).
- an entity may designate a financial asset as measured at fair value through profit or loss if that

designation would following the publication of IFRS 9 (2014) eliminate or significantly reduce an accounting mismatch but that was not the case under a previous version of the Standard.

Where relevant, these adjustments are to be made on the basis of the facts and circumstances that exist at the date of initial application of IFRS 9 (2014) and shall be applied retrospectively.

Withdrawal of earlier versions of the Standard

IFRS 9 (2014) supersedes IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013). However, for annual periods beginning before 1 January 2018, an entity may elect to apply those earlier versions of IFRS 9 instead of applying IFRS 9 (2014) provided the entity's relevant date of initial application is before 1 February 2015.

Advantages and disadvantages of early adoption of IFRS 9

Advantages

- improved ability to align accounting with the company's business model for managing financial assets
- gives a (one-off) opportunity to reclassify financial assets on initial adoption (assuming all the criteria are met)
- only one set of impairment rules needs to be considered, with no separate impairment assessment (or losses) for investments in equity instruments
- simplified accounting for and valuation of financial instruments containing embedded derivatives in asset host contracts
- enables hedge accounting to be aligned more closely with entities' risk management activities
- avoids counter-intuitive results arising from changes in own credit risks where the option to measure financial liabilities at fair value has been taken.

Disadvantages

- need to re-evaluate the classification of all instruments within the scope of IAS 39, with consequent implications for system changes
- restricted ability to reclassify financial instruments on an ongoing basis
- system changes will need to be made in order to generate the information necessary to implement the Standard's three-stage impairment model
- inability to voluntarily discontinue hedge accounting

Practical insight – European Union (EU) endorsement

Entities reporting in accordance with the EU's IAS Regulation will not be able to apply IFRS 9 until it has been endorsed in accordance with that Regulation. In view of the complex and sometimes controversial nature of the subject matter, as well as changes being made to the EU's endorsement process, this is expected to take a considerable period of time. The EU previously decided not to consider any of the earlier versions of IFRS 9 for endorsement, preferring instead to wait for the final version.

- complicated transition provisions as a result of the phased completion of the project.



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