INTRODUCTION

The Mazars Insight series on IFRS aim at helping preparers, users and auditors of financial statements develop their theoretical and practical understanding of IFRSs. Our objective is to provide our readers, whether beginners or experts, with useful tools which provide clarity and insight on the challenging issues that may be encountered when applying IFRSs. Concepts are explained in a pedagogical way and illustrated by numerous practical examples.

This IFRS Insight addresses the accounting for financial instruments under IFRS. It draws on several relevant IFRS standards to tackle, in one manual, the entire range of challenges related to financial instruments among which: recognition and derecognition, classification and measurement, impairment for credit risk, derivatives and hedging, and related disclosures. It includes all the new requirements introduced by IFRS 9 and the related amendments to other standards such as IFRS 7.

After a two-pager providing an overview of IFRS requirements for financial instruments in 10 key points, a table of content shows the list of chapters. Each chapter starts with a detailed table of content to direct readers straight to the topic they are searching for. Many cross references have been inserted for improved reading experience. We draw specific attention to chapter 2 which comprises the definitions and the list of abbreviations and acronyms used in this manual.

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Vincent Guillard
IFRS Lead Partner for Financial Instruments
10 KEY POINTS TO REMEMBER

1. Scope
The accounting treatment of financial instruments under IFRS is defined by several standards. IFRS 9 – *Financial Instruments* provides requirements for recognition and derecognition, classification, measurement (including impairment) and hedge accounting. IAS 32 – *Financial Instruments: Presentation* provides principles for distinguishing issued debt and equity instruments as well as requirements for offsetting financial assets and financial liabilities. IFRS 7 – *Financial Instruments: Disclosures* deals with most of the disclosure requirements, and IFRS 13 – *Fair Value Measurement* provides guidance on fair value measurement and related disclosure requirements. Each of these standards has specific scope exclusions, even for items that meet the definition of financial instruments. (see chapter 1)

2. Initial recognition
All financial instruments are initially recognised when the entity becomes party to the contract. Financial assets or liabilities are initially measured at their fair value plus or minus transaction costs, except financial instruments classified at FV-PL for which transaction costs are directly expensed into profit or loss. However, trade receivables are initially measured at their transaction price if they do not contain a significant financing component in accordance with IFRS 15. When the transaction price differs from the initial fair value of that financial instrument, a so called “day one gain or loss” may need to be recognised upon initial recognition in profit or loss. (see chapter 6)

3. Classification of financial assets
Financial assets whose contractual cash flows are Solely Payments of Principal and Interest (the SPPI test) will be classified in accordance with the entity’s business model for managing the asset: Amortised Cost if they are subject to a Hold-To-Collect business model, FV-OCI if they are held within a Hold-To-Collect-and-Sell business model, or FV-PL in any other situation. Financial assets that do not pass the SPPI test (e.g. derivatives and equity instruments) must be classified in the FV-PL category, except for some equity instruments which the entity may irrevocably classify in FV-OCINR.

Subsequent reclassifications are limited to SPPI financial assets, upon a change in the entity’s business model and are thus expected to be very infrequent.

Subject to specific conditions (e.g. when a situation of an accounting mismatch would otherwise arise), an entity may irrevocably classify any financial asset as measured at FV-PL upon initial recognition. (see chapter 7)

4. Impairment for expected credit losses
Entities must recognise an allowance for expected credit losses for all financial assets classified in the Amortised Cost or FV-OCI category, as well as for most loan commitments and financial guarantees issued. Upon initial recognition of the instrument, the loss allowance is equal to the credit losses that the entity expects as a result from default events occurring within the next 12 months (12MECL). This amount is updated at each reporting date. When a Significant Increase in the Credit Risk (SICR) of the asset is identified, the loss allowance must be measured at an amount equal to the credit losses that the entity expects to occur over the full remaining life of the asset (LTECL).

Purchased or originated credit-impaired (POCI) assets (i.e. assets with existing incurred credit losses upon initial recognition) follow a separate impairment and revenue recognition model.
A simplified expected credit loss impairment approach is mandatory for short term trade receivables and contract assets, and optional for other trade receivables and contract assets, and lease receivables. (see chapter 9).

5. Classification of financial liabilities
Most financial liabilities are classified in the Amortised Cost category unless they are held for trading, or meet the conditions for a voluntarily classification in the FV-PL category upon their initial recognition. (see chapter 8)

6. Debt vs. Equity
Financial instruments issued that are in the scope of IAS 32 must be analysed to determine whether they meet the definition of an equity instrument or that of a financial liability. An instrument is generally classified as a financial liability if it requires the entity either to deliver cash or another financial asset, or to deliver a variable number of its own equity instruments. A derivative may qualify as an equity instrument if it will be settled only by the issuer exchanging a fixed amount of cash for a fixed number of own equity instruments. Compound instruments contain both a liability and an equity component which must be accounted for separately.

7. Embedded derivatives
Derivative instruments may be either stand-alone contracts, or a feature embedded in a financial liability host contract or a non-financial host contract. Embedded derivatives must be bifurcated and accounted for separately as a stand-alone derivative if they are not economically closely related to their host contract. (see chapter 13)

8. Hedge accounting
Under IAS 39 and IFRS 9, most derivatives are by default measured at FV-PL whereas non-derivative financial assets and financial liabilities are often measured at amortised cost or FV-OCI. This situation may trigger accounting mismatches in profit or loss despite a proper economic offset between the hedging derivative and the hedged exposure. To better reflect the hedging strategy of the entity, IFRS 9 provides specific and optional accounting treatments for hedging relationships. The accounting impact depends on the nature of the hedging relationship (fair value hedge, cash flow hedge or net investment hedge). Hedge accounting is subject to eligibility, effectiveness and documentation-related conditions. (see chapter 14)

9. Derecognition
A financial asset is derecognised when and only when the contractual rights to the cash flows expire, or when the asset is transferred and this transfer meets the derecognition requirements. This test relies mainly on two criteria: the transfer of the contractual rights to the cash flows, and the transfer of the risks and rewards of ownership of the financial asset.

A financial liability is removed from the statement of financial position when it is extinguished. An exchange or modification of debt instruments, between an existing lender and borrower, is considered as an extinguishment of the original instrument if the terms of the original and the “new” instrument are substantially different.

10. Disclosures on financial instruments
The disclosure requirements aim at enabling the users to assess the significance of financial instruments for the entity, the nature and extent of risks arising from them, and how the entity manages those risks. (see chapter 16)
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1.1. Introduction

An entity may need to use principally five different standards to account properly for financial instruments under IFRS. We will first present the purpose of each of these standards. We will then focus on the scope of the main IFRS standard for financial instruments, IFRS 9, and provide a specific focus on “own-use contracts”. Finally, we will present synoptic tables to provide a comparative scope overview between IAS 32, IFRS 7 and IFRS 9.

The five main IFRS standards dealing with financial instruments are the following:

**IFRS 9 – Financial Instruments**

The objective of IFRS 9 is to define principles for the financial reporting of financial instruments that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows (IFRS 9.1).

IFRS 9 deals with:
- initial recognition and derecognition of financial instruments (see chapters 6, 10 and 11);
- classification principles of financial instruments (see chapter 7 for financial assets and chapter 8 for financial liabilities);
- measurement requirements at initial recognition (chapter 6) and subsequently (see chapter 9);
- impairment requirements for financial instruments (see chapter 9); and
- hedge accounting (see chapter 14).

**IAS 32 – Financial Instruments: Presentation**

IAS 32 aims at setting principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments from the perspective of the issuer, the classification of related interest, dividends, losses and gains and circumstances in which financial assets and financial liabilities should be offset.

**IFRS 7 – Financial Instruments: Disclosures**

IFRS 7 deals with most of the disclosures requirements related to financial instruments and is a complement to the principles defined by IAS 32 and IFRS 9.

Its objective is to require entities to provide disclosures in their financial statements that enable users to evaluate:
- the significance of financial instruments for the entity’s financial position and performance; and
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

**IFRS 13 – Fair Value Measurement**

IFRS 13 defines the concept of fair value (see chapter 3), setting out in a single IFRS a framework for measuring fair value, and requiring disclosures about fair value measurements (see section 16.6.4).

Fair value being one of the two measurement methods used for financial instruments, IFRS 13 provides highly relevant input in accounting for financial instruments under IFRS.
IAS 39 – Financial Instruments: Recognition and Measurement

IAS 39 is the former IFRS standard for financial instruments. It was replaced by IFRS 9. However, IFRS 9 transition requirements allow entities to continue to apply some or all of IAS 39 requirements under specific circumstances.

The scope of IFRS 9 is mostly defined as all financial instruments, except for some of them. Therefore, we will start by defining which instruments are financial instruments and which ones are not. Then, we will detail the financial instruments that are excluded from the scope of IFRS 9. We will also present a specific focus on the contracts to buy or sell a non-financial item such as commodities. Finally, we will compare the scope of IFRS 9 to the scope of IAS 32 and then to that of IFRS 7.

1.2. Financial instruments under IFRS

1.2.1. IFRS definition of a financial instrument

IAS 32.11 defines a financial instrument as “any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity”.

Figure 1.1

To make the definition of a financial instrument easier to understand, it is necessary to explain some basic terms:

— IAS 32.13 defines a contract as an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law. Contracts, and thus financial instruments, may take a variety of forms and need not be in writing.

— IAS 32.14 defines an entity as individuals, partnerships, incorporated bodies, trusts and government agencies.

A financial asset is any asset that is:

— cash;

— an equity instrument of another entity;
— a contractual right:
  > to receive cash or another financial asset from another entity; or
  > to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
— a contract that will or may be settled in the entity’s own equity instruments and is not qualified as equity instrument.

A financial liability is any liability that is:
— a contractual obligation:
  > to deliver cash or another financial asset to another entity, or
  > to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
— a contract that will or may be settled in the entity’s own equity instruments and is not qualified as equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities (see chapter 5).

The definition of a financial instrument under IFRS is principle-based. This definition will include a wide range of instruments as well as a wide range of legal formats. The most common examples of financial instruments are presented in the next section.

### 1.2.2. Examples of financial instruments

#### 1.2.2.1. Simple financial instruments

Currency (cash) is a financial asset because it represents the medium of exchange and is therefore the basis on which all transactions are measured and recognised in financial statements. A deposit of cash with a bank or similar financial institution is a financial asset because it represents the contractual right of the depositor to obtain cash from the institution or to draw a cheque or similar instrument against the balance in favour of a creditor in payment of a financial liability (IAS 32.AG3).

Common examples of financial assets representing a contractual right to receive cash in the future and corresponding financial liabilities representing a contractual obligation to deliver cash in the future are:

— trade accounts receivable and payable;
— notes receivable and payable;
— loans receivable and payable; and
— bonds receivable and payable.

In each case, one party’s contractual right to receive (or obligation to pay) cash is matched by the other party’s corresponding obligation to pay (or right to receive) (IAS 32.AG4).
1.2.2.2. Derivative financial instruments

Derivative financial instruments create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument (for the definition of a derivative financial instrument, see chapter 2).

On inception, derivative financial instruments give one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable (IAS 32.AG16).

Examples are: financial options, futures and forwards, interest rate and currency swaps, interest rate caps, collars and floors, loan commitments, note issuance facilities and letters of credit.

1.2.2.3. Loan commitments

IFRS 9.BCZ2.2 defines a loan commitment as a firm commitment to provide credit under pre-specified terms and conditions. A commitment to grant a loan at a specified interest rate during a fixed period meets the definition of a derivative. As such, most loan commitments should fall into the scope of IFRS 9. However, IFRS 9 decided to exclude some of them from the scope of its classification requirements (see section 1.3.8).

1.2.2.4. Lease contracts

IAS 32.AG9 specifies that a lease contract creates symmetrical obligations for the lessor to receive, and for the lessee to pay, a stream of payments.

Under a finance lease as defined by IFRS 16, a lessor regards this contract as a financial instrument whereas under an operating lease, a lessor continues to account for the underlying asset itself. Consequently, under an operating lease, only individual payments currently due and payable are financial instruments.

1.2.2.5. Trade receivables

As stated by IAS 32.AG21, a contract that implies the receipt / delivery of physical assets will generate a financial instrument when the payment is deferred past the delivery date, even if no invoice is issued at that same date.

When they are assets, these financial instruments are called trade receivables.

1.2.2.6. Insurance contracts

Insurance contracts as defined by IFRS 4 are most of the time financial instruments. An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder (IFRS 4 Appendix A).
The definition refers to insurance risk as opposed to a financial risk. A financial risk is a risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, currency exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (IFRS 4 Appendix A).

Nevertheless, an insurance contract is generally a basic right / obligation to receive / pay cash upon the occurrence of a specified event. It therefore generally meets the definition of a financial instrument.

### 1.2.3. Examples of non-financial instruments

#### 1.2.3.1. Physical assets, leased assets and intangible assets

Physical assets (like inventories, property, equipment, etc.), leased assets and intangible assets (like patents or trademarks for instance) do not give rise to a present right to receive cash or another financial asset (IAS 32.AG10).

#### 1.2.3.2. Assets / liabilities for which the future economic benefit is the receipt / outflow of goods or services

Because they do not give rise to an obligation of receiving cash (or another financial instrument), prepaid expenses, deferred revenue and most warranty obligations are not financial instruments (IAS 32.AG11).

Except as required by IFRS 15 - Revenue from Contracts with Customers, a contract that involves the receipt or delivery of physical assets does not give rise to a financial asset of one party and a financial liability of the other party unless any corresponding payment is deferred past the date on which the physical assets are transferred. Such is the case with the purchase or sale of goods on trade credit (IAS 32.AG21).

#### 1.2.3.3. Assets or liabilities that are not contractual

A financial instrument triggers “contractual” rights and obligations. Some obligations / rights to pay / receive cash are not contractual and are therefore not financial instruments. The most common example is an income tax liability. As it is not an obligation created by a contract, it is not a financial instrument.

Another example is a constructive obligation that enters the scope of IAS 37 - Provisions, contingent liabilities and contingent assets (IAS 32.AG12).

#### 1.2.3.4. Gold Bullion

IFRS 9.IG.B.1 states clearly that a gold bullion is a commodity. It isn’t a financial instrument because there is no contractual right to receive cash or another financial instrument encompassed in a gold bullion.
1.3. Financial instruments excluded from the scope of IFRS 9

IFRS 9 must be applied to all financial instruments except those that are detailed hereafter.

### 1.3.1. Interests in subsidiaries, associates and joint-ventures

The scopes of IAS 32, IFRS 9 and IFRS 7 exclude interests in subsidiaries, associates and joint ventures that are accounted for according to, respectively, IFRS 10 – *Consolidated Financial Statements*, IAS 27 – *Separate Financial Statements* and IAS 28 – *Investments in Associates and Joint Ventures*.

However, in some very specific cases, either IFRS 10, IAS 28 or IAS 27 require or permit to apply IFRS 9. In those cases, the financial instruments enter the scopes of IFRS 9, IAS 32 and IFRS 7 (IFRS 9.2.1(a), IAS 32.4(a), IFRS 7.3(a)).

Derivatives on interests in subsidiaries, associates or joint ventures, are in the scope of IAS 32. They are also in the scope of IFRS 7 and IFRS 9 except if they meet the definition of an equity instrument in the entity in IAS 32.

### 1.3.2. Lease contracts under IFRS 16

Rights and obligations under lease contracts are excluded from the scope of IFRS 9 except in the following cases:

- all derivatives embedded in lease contracts are in the scope of the embedded derivatives requirements of IFRS 9;
- by the lessor, all lease receivables recognised are in the scope of the derecognition and impairment requirements of IFRS 9;
- by the lessee, lease liabilities are in the scope of the derecognition requirements of IFRS 9 for financial liabilities.

### 1.3.3. Rights and obligations according to IAS 19

Employers’ rights and obligations under employee benefit plans are excluded from the scope of IFRS 9, IAS 32 and IFRS 7 (IFRS 9.2.1(c) ; IAS 32.4(a) and IFRS 7.3(b)), where employee benefit plans means all forms of consideration given by an entity in exchange for a service rendered by employees or for the termination of employment (as per the definitions in IAS 19.8).

As confirmed by the IFRS Interpretations Committee (IFRS IC) in November 2005, the exclusion of IAS 32 applies to all employee benefits covered by IAS 19, even long-service leave.

### 1.3.4. Issued equity instruments

When an entity issues financial instruments that satisfy the definition of an equity instrument according to IAS 32, this financial instrument is out the scope of IFRS 9 (IFRS 9.2.1(d)).
When an issued financial instrument does not meet the IAS 32 definition of an equity instrument, but is required to be classified as an equity instrument under the specific paragraphs IAS 32.16 A - B for puttable instruments or IAS 32.16 C - D for instruments that comprise an obligation to deliver a prorate share of the net asset of the entity only on liquidation, it is excluded from the scope of IFRS 9 and IFRS 7 (IFRS 9.2.1(d)).

### 1.3.5. Insurance contracts

The following contracts are excluded from the scopes of IAS 32, IFRS 9 and IFRS 7:

- insurance contracts as defined by IFRS 4.

Please note that the exclusion applies to all insurance contracts and not only the insurance contracts that are in the scope of IFRS 4. This is important because IFRS 4 excludes from its scope, for example, insurance contracts held that are not re-insurance contracts.

This exclusion also applies to an embedded derivative in an insurance contract that is itself an insurance contract (IFRS 4.7).

Please note that an investment contract that has the legal form of an insurance contract but does not expose the insurer to significant insurance risk is not an insurance contract. An example can be life insurance contracts that effectively are investment contracts with insignificant mortality risk (such contracts are non-insurance financial instruments or service contracts) (IFRS 4.B19(a)).

- contracts that are within the scope of IFRS 4 because they contain a discretionary participation feature (i.e. essentially rights of the holder to receive additional benefits at the discretion of the issuer – see IFRS 4 Appendix A for more details on this concept). Please note that those contracts even though out of the scope of IAS 32 and IFRS 9, are in the scope of IFRS 7.

Please note that financial guarantee-related issues are addressed in the next section.

### 1.3.6. Financial guarantee contracts

#### 1.3.6.1. Definition of financial guarantee contracts

A financial guarantee is a contract that requires its issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor failed to make payment when due in accordance with the original or modified terms of a debt instrument (IFRS 9 Appendix A).

As specified by IFRS 9.B2.5 , the legal form of a financial guarantee contract (guarantee, letter of credit, credit default swap or insurance contract) would not impact its IFRS definition.

A financial guarantee will require a reimbursement of an incurred loss. Some credit-related guarantees do not, as a precondition for payment, require that the holder is exposed to, and has incurred a loss on, the failure of the debtor to make payments on the guaranteed asset when due. Such contracts are neither financial guarantees nor insurance contracts and must therefore be qualified as a derivative instrument and be accounted for in accordance with IFRS 9 requirements (IFRS 9.B2.5(b)).
Determining whether the cash flows of a contract are a reimbursement of an incurred loss or not could sometimes require the exercise of judgement. It could be the case, for instance, when the end of the guarantee arises when the enforcement actions are still on-going, meaning before the actual amount of the incurred loss is known.

The incurred loss that is reimbursed by the contract should relate to a debt instrument which is not defined in IFRS 9.

In our opinion, the following could be considered as debt instruments: debt securities of course, but also trade debts or debts linked to a finance lease contract for instance.

### 1.3.6.2. Applying IFRS 4 vs. IFRS 9 to financial guarantee contracts

Financial guarantee contracts are within the scope of IFRS 9 except if (IFRS 9.2.1(e)):

- an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting that is applicable to insurance contracts; and
- the issuer has elected to apply IFRS 4 to such financial guarantee contracts. This election is made contract by contract but is irrevocable.

Financial guarantee contracts are often issued by financial institutions. The above exception was introduced in the context of the first application of IFRS 4. The aim of this requirement was to require banks to apply IFRS 9 (formerly IAS 39) to such contracts, but to offer to insurance entities an option to account for financial guarantees in accordance with IFRS 4 if they elect to do so.

### 1.3.7. Forward contracts between an acquirer and a selling shareholder in an IFRS 3 business combination

Any forward contract between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination within the scope of IFRS 3 – *Business Combinations* at a future acquisition date, is excluded from the scope of IFRS 9. The term of the forward should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction (IFRS 9.2.1(f)).

### 1.3.8. Loan commitments excluded from the scope of classification of IFRS 9

Despite the fact that most loan commitments should fall within the scope of IFRS 9 as derivatives (see section 1.2.2.3), the IASB decided to exclude some loan commitments to simplify their accounting for holders and issuers of those loan commitments (IFRS 9.BCZ.2.3).

This exclusion applies to loan commitments that lead to an asset being recognised at amortised cost and consists in neither recognising these loan commitments nor measuring the changes in their fair value. However, this exclusion must not be applied to the following loan commitments:
— loan commitments that are designated at fair value through profit or loss if it reduces an accounting mismatch or if the associated risk exposure is managed on a fair value basis (IFRS 9.2.3(a));
— loan commitments that are mandatory at fair value through profit or loss because the entity has a past practice of selling the assets resulting from loan commitments in the same class (IFRS 9.2.3(a));
— loan commitments that can be settled net in cash or by delivering or issuing another financial instrument because they are derivatives (IFRS 9.2.3(b));
— commitments to provide a loan at a below-market interest rate (IFRS 9.2.3(c)).

This scope exclusion grants a consistent treatment between the loan commitment and a loan measured at amortised cost the carrying amount of which is not affected by changes in market interest rate or credit spread.

In practice, many loan commitments will benefit from this IFRS 9 exclusion. However, a dedicated analysis should be performed when an entity sells its loans, as in syndication activities for instance.

Please note that all loan commitments not measured at FV-PL are in the scope of the impairment and derecognition requirements of IFRS 9 (IFRS 9.2.1(g)).

1.3.9. Share-based payments transactions (IFRS 2)

IAS 32.4(f)(i), IFRS 9.2.1(h) and IFRS 7.3(e) exclude from the scope of IAS 32, IFRS 7 and IFRS 9, contracts and obligations under share-based payment transactions for which IFRS 2 – *Share-based payment* applies.

However, those contracts should be treated as financial instruments following the rules applying to contracts to buy and sell non-financial item (see section 1.4)

1.3.10. Reimbursement rights recorded in accordance with IAS 37

Reimbursement rights of an entity for expenditure that it is required to make to settle a liability that it recognises as a provision in accordance with IAS 37 or for which, in an earlier period, it recognised a provision in accordance with IAS 37 are excluded from the scope of IFRS 9 (IFRS 9.2.1(i)).

Please note that there is no such exclusion from the scope of IAS 32 and IFRS 7.

1.3.11. Rights and obligations under IFRS 15

IFRS 9.2.1(j) excludes from the scope of classification of IFRS 9 all rights and obligations that are within the scope IFRS 15 – *Revenue from Contracts with Customers* except for those for which IFRS 15 requires otherwise.

In other words, this exclusion will mainly apply to contract assets. A contract asset is an entity’s right to consideration in exchange for goods or services that the entity has transferred to a customer (IFRS 15.107), when that right depends on something other than the passage of time (for example, the future performance of the entity).

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Contract assets must be distinguished from trade receivables that must be recognised in accordance with IFRS 9 requirements. A trade receivable is an entity’s right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due (IFRS 15.108).

Please note that the contract assets initially recognised under IFRS 15 are however within the scope of IFRS 9 impairment requirements as required by IFRS 15.107 and IFRS 9.2.2 (see chapter 9).

1.4. Contracts to buy or sell a non-financial item and “Own-use” contracts

1.4.1. Purpose of the scope exception

Industrial entities may regularly enter into contracts to buy or sell non-financial items (e.g. commodities) at a fixed price and with a future settlement and delivery. Such agreement may meet the definition of a derivative and as such would have to be measured at FV-PL. However, it was not the intention of the Board to require any such contract to be accounted for as a financial derivative. IFRS 9 therefore comes with a scope exception, often referred as “own-use contracts”, to address this issue.

1.4.2. Scope of the own-use contracts exception

Contracts to buy or sell a non-financial item that was entered into and continues to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity’s expected purchase, sale or usage requirements are excluded from the scope of IFRS 9 (IFRS 9.2.4). Such contracts are often referred as “own-use contracts”.

It is important to note that this scope exception refers to a “receipt or delivery”. Therefore, contracts that can only be settled net in cash or another financial instrument, or by exchanging financial instruments cannot qualify as “own-use contracts”.

An entity should perform an analysis to determine whether the contracts were entered into and continue to be held for the purpose of the receipt or delivery of the non-financial item in accordance with the entity’s expected purchase, sale or usage requirements when the terms of the contract (IFRS 9.2.6):

— permit either party to settle it net in cash or another financial instrument or by exchanging financial instruments; or
— are on an underlying non-financial item that is readily convertible to cash.
IFRS 9 imposes a non-rebuttable presumption that a contract to buy or sell a non-financial item is not entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity’s expected purchase, sale or usage requirements and must therefore be included in the scope of IFRS 9 when (IFRS 9.2.6):

— the ability to settle net in cash or another financial instrument, or by exchanging financial instruments, is not explicit in the terms of the contract, but the entity has a practice of settling similar contracts net in cash or another financial instrument or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse); or

— when, for similar contracts, the entity has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer’s margin.

A similar non-rebuttable presumption exists that a written option to buy or sell a non-financial item is not entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity’s expected purchase, sale or usage requirements and is therefore within the scope of IFRS 9 if:

— it can be settled net in cash or another financial instrument, or by exchanging financial instruments; or

— the non-financial item that is the subject of the contract is readily convertible to cash.

### 1.4.3. Fair value option for own-use contracts

A contract to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contract was a financial instrument, may be irrevocably designated as measured at fair value through profit or loss even if it was entered into for the purpose of the receipt or delivery of a non-financial item in accordance with the entity’s expected purchase, sale or usage requirements (IFRS 9.2.5).

This designation is available only at inception of the contract and only if it eliminates or significantly reduces a recognition inconsistency (sometimes referred to as an “accounting mismatch”) that would otherwise arise from not recognising that contract because it is excluded from the scope of IFRS 9.
1.4.4. Own-use contract decision tree

Figure 1.2

Contracts to buy or sell a non-financial item

Gross physical settlement of the contract is possible (IFRS 9.2.4)

- Yes
- No

The entity has a practice of settling similar contracts net in cash or another financial instrument or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse) (IFRS 9.2.6(b))

- Yes
- No

The entity has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer’s margin (IFRS 9.2.6(c))

- Yes
- No

The contract can only be settled by the gross physical delivery of a non-financial item that is not readily convertible to cash

- Yes
- No

The contract is a written option (IFRS 9.2.7)

- Yes
- No

The contract was entered into and continues to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity’s expected purchase, sale or usage requirements (IFRS 9.2.4)

- Yes
- No

The contract has been designated at fair value through profit or loss at its inception in order to reduce an accounting mismatch (IFRS 9.2.5)

- Yes
- No

The contract benefits from the “own-use” exception and is excluded from the scope of IFRS 9

- Yes

The contract is in the scope of IFRS 9

- No
## 1.5. Synoptic table of comparative scopes by type of instruments

### Figure 1.3

<table>
<thead>
<tr>
<th>Which instruments?</th>
<th>IAS 32</th>
<th>IFRS 9</th>
<th>IFRS 7</th>
<th>Other standards</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Classification</td>
<td>Impairment</td>
<td>Derecognition</td>
<td>Embedded derivative</td>
</tr>
<tr>
<td>Some common financial instruments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives(^2)</td>
<td>✓</td>
<td>✓</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td>Investments in debt instruments</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Investments in equity instruments as defined in IAS 32(^4)</td>
<td>✓</td>
<td>✓</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td>Exception cases in which IFRS 10, IAS 27 or IAS 28 allow or require to apply some or all of IFRS 9’s requirements</td>
<td>✓</td>
<td>Refer to the relevant standard i.e. IFRS 10 or IAS 27 or IAS 28</td>
<td>✓</td>
<td>n/a</td>
</tr>
<tr>
<td>Interests in subsidiaries, associates and joint ventures IFRS 9.2.1(a)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other interests in subsidiaries, associates and joint ventures</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Derivatives on interests in a subsidiary, associate or joint venture that meet the definition of an equity instrument of the entity (according to IAS 32)</td>
<td>✓</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
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<tr>
<td>Other derivatives on interests in a subsidiary, associate or joint venture</td>
<td>✓</td>
<td>✓</td>
<td>✗</td>
<td>✓</td>
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<tr>
<td>Equity instruments IFRS 9.2.1(d)</td>
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<td></td>
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<tr>
<td>Issued Equity instruments following the definition of IAS 32(^6)</td>
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<td>✗</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Issued instruments required to be presented as equity following IAS 32.16 A or B or C or D</td>
<td>✓</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
</tr>
</tbody>
</table>

---

\(^2\) Including embedded derivatives accounted for separately as required by IFRS 9.

\(^3\) Other than interests in subsidiaries, associates and joint ventures.

\(^4\) Including options and warrants and instruments required to be presented as equity following IAS 32.16 A or B or C or D.

\(^5\) Including derivative instruments.
<table>
<thead>
<tr>
<th>Which instruments?</th>
<th>IAS 32</th>
<th>IFRS 9</th>
<th>IFRS 7</th>
<th>Other standards</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Classification</td>
<td>Impairment</td>
<td>Derecognition</td>
<td>Embedded derivative</td>
</tr>
<tr>
<td>Contract to buy or sell non-financial items (IFRS 9.2.4-7)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Own-use contracts</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Contracts to buy or sell non-financial items that are designated or mandatorily measured at FV-PL.</td>
<td>✓</td>
<td>✓</td>
<td>x</td>
<td>✓</td>
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<tr>
<td>Loan Commitments (IFRS 9.2.3)</td>
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<td></td>
</tr>
<tr>
<td>Loan commitments designated at FV-PL or mandatorily measured at FV-PL (IFRS 9.2.3)</td>
<td>✓</td>
<td>✓</td>
<td>x</td>
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<tr>
<td>Commitment to provide a loan at below-market rate (IFRS 9.2.3(c))</td>
<td>✓</td>
<td>x</td>
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<tr>
<td>Other loan commitments (IFRS 9.2.1(g))</td>
<td>✓</td>
<td>x</td>
<td>✓</td>
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<td>Share-based payment contracts (IFRS 2) (IFRS 9.2.1(h))</td>
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<tr>
<td>Treasury shares purchased, sold, issued or cancelled in relation to a share-based payment arrangement</td>
<td>✓</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>All other financial contracts</td>
<td>x</td>
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<td>x</td>
<td>x</td>
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<td>Forward contracts between an acquirer and a selling shareholder in an IFRS 3 business combination (IFRS 9.2.1(f))</td>
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<tr>
<td>Forward contracts in a business combination with a reasonable period to complete the transaction</td>
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<td>x</td>
<td>x</td>
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<tr>
<td>Forward contracts in a business combination with more than a reasonable period to complete the transaction</td>
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<td>✓</td>
<td>x</td>
<td>✓</td>
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<tr>
<td>Which instruments?</td>
<td>IAS 32</td>
<td>IFRS 9</td>
<td>IFRS 7</td>
<td>Other standards</td>
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<td>-----------------</td>
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<td><strong>Insurance contracts</strong> IFRS 9.2.1(e)</td>
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<tr>
<td>A contract that is within the scope of IFRS 4 because of its discretionary participation features</td>
<td>Partially</td>
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<tr>
<td>Financial guarantee contracts issued for which IFRS 9 applies</td>
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<td>✓</td>
<td>✓</td>
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<tr>
<td>Other insurance contracts</td>
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<td><strong>Rights and obligations under IFRS 15</strong> IFRS 9.2.1(j)</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Contract assets</td>
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<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Trade receivables</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Trade payables</td>
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<td>✓</td>
<td>✓</td>
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<tr>
<td>Reimbursement Rights recorded in accordance with IAS 37</td>
<td>✓</td>
<td>✗</td>
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<td><strong>IFRS 16 contracts</strong> IFRS 9.2.1(b)</td>
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<tr>
<td>At the lessee: lease payables / liabilities</td>
<td>✓</td>
<td>✗</td>
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<td>At the lessor: lease receivables</td>
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<td><strong>Employer’s rights and obligations under IAS 19</strong> IFRS 9.2.1(c)</td>
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<tr>
<td></td>
<td>✓</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
</tr>
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