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# Classification and measurement of financial assets under IFRS 9

# Field-test

**This field-test is carried out by EFRAG with ANC, ASCG, FRC and the OIC. The following European banking and insurance associations will encourage their members to participate: EBF, ESBG, EACB, ISDA and Insurance Europe.**

**EFRAG staff will aggregate the results of all the questionnaires received on an anonymous basis and only a list of companies who participated in the study will be provided as an appendix. If you explicitly request it, the name of your company will not be included.**

**EFRAG and your National Standard Setter, if applicable, will have access to the information that you provide in response to this questionnaire. Your response will be also shared with other national standard setters participating in the exercise, the IASB and the European Commission on an anonymous basis (i.e. participants’ identity will remain confidential).**

**More detailed information is available on EFRAG’s website (www.efrag.org).**

## Background

1. In November 2012, the IASB issued the Exposure Draft *Classification and Measurement: Limited Amendments to IFRS 9* (proposed amendments to IFRS 9 (2010)) (the ED) to clarify and propose limited changes to the requirements for classifying and measuring financial instruments issued by the IASB in October 2010.
2. Once the IASB completes the ED, the Classification and Measurement phase of its wider project to reform accounting for financial instruments would be finalised.
3. This paper refers to the classification and measurement requirements included in IFRS 9 (2010), as modified by the ED, as ‘the new requirements’ for ease of reference.
4. The new requirements would be based on one classification approach that applies to all types of financial assets, including those that contain embedded derivative features. This classification approach is driven by the entities’ business model and the nature of the cash flows arising from the financial assets.
5. As a consequence of the new requirements, some reporting entities might need to measure at fair value through profit or loss (FV-PL) or fair value through other comprehensive income (FV-OCI) some financial assets that are currently measured at amortised cost, or the other way around.
6. EFRAG and National Standard Setters (ANC, ASCG, FRC and the OIC) are performing a joint field-test on how the new requirements would affect the current classification and measurement of financial assets. This exercise is focused on the practical application of the new requirements and is not intended to gather any opinions, but solely facts and objective data, and sets out a timeline that goes beyond the IASB’s comment period.
7. The field-test is intended to serve as input to the European Commission’s endorsement process and to EFRAG and National Standard Setters to help them formulate their views on the impacts of the application of the new classification and measurement requirements in IFRS 9.
8. However, EFRAG is also interested in your views and opinions on the ED; therefore we encourage you to submit separately a response to EFRAG’s draft comment letter on the ED. Similarly, National Standard Setters also encourage participants to submit to them separately any views and opinions as part of their due processes on their comment letters to the IASB.

**Objective of this field-test**

1. The purpose of the exercise is to identify in what circumstances in practice the application of the new classification and measurement requirements in IFRS 9 would lead to changes in the current measurement of financial assets under IAS 39. In particular:
2. to identify:
3. in the group of financial assets that are currently measured in their entirety at FV-PL under IAS 39 (other than derivatives), those that would be no longer measured at FV-PL under IFRS 9;
4. in the group of financial assets that are currently classified in the available-for-sale category under IAS 39, those that would be measured at amortised cost, FV-OCI and FV-PL under IFRS 9,
5. in the group of financial assets that are currently measured in their entirety at amortised cost under IAS 39, those that would be measured at FV-OCI and FV-PL under IFRS 9;
6. in the group of financial assets that can be bifurcated under IAS 39, those for which bifurcation is no longer allowed under IFRS 9 and would be measured at FV-PL, and how they are currently measured under IAS 39;
7. in the group of financial assets that contain a closely related embedded feature and are measured in their entirety at amortised cost under IAS 39, those that would be measured at FV-PL under IFRS 9; and
8. to understand the relative importance of the groups identified above and the high level reasons for those changes.
9. All companies that expect to be significantly impacted by the new requirements are invited to participate in the field test. In particular, EFRAG and the National Standard Setters would expect banks, insurers and other financial institutions to participate as they are most likely to be involved with large amounts of financial assets and to have made progress in the implementation of IFRS 9.
10. EFRAG and National Standard Setters ask participants to provide information about the relative importance of the circumstances referred above in terms of their total assets as of 31 December 2012.
11. Providing information about the relative importance as of 31 December 2012 will help us aggregating the results. If a different reporting date is used, participants are asked to indicate the date on which the assessment was made.

**What you are invited to do**

1. EFRAG staff and National Standard Setters have developed this questionnaire to help facilitate the data collection effort and processing of the findings. The questionnaire asks you to report on the tentative results and conclusions of your internal assessment regarding the implementation of the new requirements.
2. Participants are requested to consider the new requirements (i.e. classification and measurement requirements set out in IFRS 9 (2010) as modified by the ED) assuming no changes in how financial assets are managed as of 31 December 2012. That is, participants should consider the business model in place as at the date of reference.
3. In addition, participants in the field-test that issue insurance contracts are requested to take into consideration the IASB’s tentative decisions on the insurance contract project when answering the questions regarding accounting mismatches.
4. Please document your observations and findings in English in the sections specified. If you have any questions about how to document in this questionnaire, please contact your designated point of contact. Participants are encouraged to use their own national standard setter (as per the table below) as their designated point of contact.

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| ***Country*** | ***Organisation*** | ***Contact name*** | ***Phone number*** | ***E-mail address*** |
| Italy | OIC | Roberta Luly | +39-06-6976681 | rluly@fondazioneoic.it  |

1. Participants are asked to submit the questionnaire by 5 April 2013 to their designated point of contact.

**Outline of the questionnaire**

1. This questionnaire has been structured as follows:
	* Part 1: General questions about the participating company and contact details
	* Part 2: General questions on classification and measurement
	* Part 3: Questions on bifurcation
	* Part 4: Other questions
	* Part 5: Specific questions on liquidity portfolios and portfolios backing insurance liabilities.
2. Each part comprises a targeted set of questions. EFRAG and the National Standard Setters encourage participants to respond to all parts of the questionnaire.
3. We appreciate that participants might not respond to some of the questions, because questions are not applicable, information might not be available, the expected impact is immaterial or participants do not wish to answer certain questions. We ask you to respond only to those questions that are applicable in your circumstances and for which you have the information, and indicate the reason for not responding to a question.
4. The purpose of this field test is to gain an understanding of the impact of IFRS 9 on the measurement of financial assets and related changes. In the conclusions to be drawn from this field test more weight will be given to responses that are substantiated by facts and analysis.

**Questionnaire**

**Part 1: General questions and contact information**

1. Please provide the following details about your company:
	* Name of the group with IFRS consolidated financial statements
	* Country where the parent company is located.
	* Size of the company: total balance sheet, total sales, total net income, net interest income, number of employees (please indicate the financial period to which the information relates)
	* Main activities carried out by the company

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1. Contact details including email address:

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1. Please indicate the current status of your internal assessment on the new classification and measurement requirements in IFRS 9 and describe which phases of the work have been completed, if any.

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**Part 2: General Questions on Classification and Measurement**

*A – Financial assets currently measured at fair value through profit or loss (FV-PL)*

Please identify the group (the ‘Group’) of financial assets that are currently measured in their entirety at FV‑PL under IAS 39 other than derivatives.

*Financial assets no longer measured at FV-PL*

1. Please identify in this Group the types of financial assets, portfolios or products that would no longer be measured at FV-PL. In doing so, please:
2. describe the characteristics of the financial assets involved,
3. describe how the financial assets involved are managed within your company;
4. detail in which measurement category they would be classified and the high level reasons for the change in the measurement basis, and
5. provide information about the relative financial significance of the financial assets involved in terms of your total assets indicating the date and/or the period on which the assessment was made.

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*B – Financial assets currently classified in the available-for-sale category*

Please identify the group (the Group) of financial assets that are currently classified in their entirety in the available for sale category under IAS 39 and, thus, measured at fair value. Except for investments in equity instruments classified in the available-for-sale category that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

*Financial assets to be measured at FV-OCI*

1. Please identify in this Group the types of financial assets, portfolios or products that would meet the contractual cash flows characteristics assessment (‘solely payment of principal and interest’ or SPPI test) and the business model assessment to be classified at the FV-OCI measurement category. In doing so, please:
2. describe the characteristics of the financial assets involved,
3. describe how the financial assets involved are managed within your company,
4. describe the factors that were considered relevant in performing the business model assessment, including any thresholds regarding sales activity, and
5. provide information about the relative financial significance of the financial assets involved in terms of your total assets indicating the date and/or the period on which the assessment was made.

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1. Do you expect to apply the fair value option under IFRS 9 to avoid accounting mismatches on the types of financial assets, portfolios or products identified in Q5 (that is, on those that would qualify for the FV-OCI measurement category under the new requirements). In doing so, please:
2. describe the characteristics of the financial assets involved,
3. explain the reasons why an accounting mismatch arises, and
4. provide information about the relative financial significance of the financial assets involved in terms of your total assets indicating the date and/or the period on which the assessment was made.

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*Financial assets to be measured at amortised cost*

1. Please identify in this Group the types of financial assets, portfolios or products that would meet the contractual cash flows characteristics assessment (SPPI test) and the business model assessment to be classified at amortised cost. In doing so, please:
2. describe the characteristics of the financial assets involved,
3. describe how the financial assets involved are managed within your company,
4. describe the factors that were considered relevant in performing the business model assessment, including any thresholds regarding sales activity,
5. provide information about the accumulated amount in other comprehensive income at the date of the assessment for the financial assets involved, and
6. provide information about the relative financial significance of the financial assets involved in terms of your total assets indicating the date and/or the period on which the assessment was made.

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1. Do you expect to apply the fair value option in IFRS 9 to avoid accounting mismatches on the types of financial assets, portfolios or products identified in Q7? In doing so, please:
2. describe the characteristics of the financial assets involved,
3. describe how the financial assets involved are managed within your company (if not specifically explained in Q7),
4. explain the reasons why an accounting mismatch arises, and
5. provide information about the relative financial significance of the financial assets involved in terms of your total assets indicating the date and/or the period on which the assessment was made.

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*Financial assets to be measured at FV-PL*

1. Please identify in this Group the types of financial assets, portfolios or products (including investments in equity instruments) that would be measured at FV-PL. In doing so, please:
2. describe the characteristics of the financial assets involved,
3. describe how the financial assets involved are managed within your company,
4. explain the reasons why these financial assets would be measured at FV‑PL including, if applicable, why financial assets other than equity instruments do not meet the contractual cash flow characteristic assessment, and
5. provide information about the relative financial significance of the financial assets involved in terms of your total assets indicating the date and/or the period on which the assessment was made.

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*Equity investments measured at FV-OCI*

1. Please identify in this Group the equity instruments or portfolios made up of these instruments for which you expect to apply the option under IFRS 9 so that they would be measured at FV-OCI from inception (without recycling). In doing so, please:
2. explain the reasons why you intend to apply the OCI option to the equity investments involved,
3. identify whether any instruments are non-quoted equity securities,
4. identify whether this election gives rise to any accounting mismatches in your balance sheet and profit or loss and why, and
5. provide information about the relative financial significance of the financial assets involved in terms of your total assets indicating the date and/or the period on which the assessment was made.

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*C – Financial assets no longer measured at amortised cost*

Please identify the group (the Group) of financial assets that are currently measured in their entirety at amortised cost under IAS 39 and would be measured on fair value basis under IFRS 9.

*Instruments not meeting the contractual cash flows characteristics assessment*

1. Please identify in this Group the types of financial assets, portfolios or products that are held to collect their cash flows and would no longer be eligible for amortised cost because they would not meet the contractual cash flows characteristics assessment (‘solely payment of principal and interest’ or SPPI test). In doing so, please:
2. describe the characteristics of the financial assets involved,
3. describe whether the financial assets involved were measured in their entirety at amortised cost under IAS 39 because they met the double-double test or the embedded derivatives were closely related to the host instrument,
4. describe how the financial assets involved are managed within your company,
5. describe why they would not pass the SPPI test, and
6. provide information about the relative financial significance of the financial assets involved in terms of your total assets indicating the date and/or the period on which the assessment was made.

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1. Does the measurement of the financial assets, portfolios or products identified in Q11 create an accounting mismatch in your financial statements? If yes, please:
2. describe the financial assets involved in the accounting mismatch,
3. describe why an accounting mismatch arises and whether it will be possible to avoid it by applying the new requirements, and
4. provide information about the relative financial significance of the accounting mismatch.

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*Instruments not meeting the business model assessment*

1. Please identify in this Group the types of financial assets, portfolios or products that would meet the contractual cash flows characteristics assessment (SPPI test) but do not meet the business model assessment to be classified at the amortised cost measurement category. In doing so, please:
2. describe the characteristics of the financial assets involved,
3. describe how the financial assets involved are managed within your company,
4. describe why they would not meet the business model assessment (e.g. level of expected sales),
5. provide information about the relative financial significance of the financial assets involved in terms of your total assets indicating the date and/or the period on which the assessment was made.

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*Instruments meeting the contractual cash flows characteristics assessment and the business model assessment*

1. Please identify in this Group the types of financial assets, portfolios or products that would meet the contractual cash flows characteristics assessment (SPPI test) and the business model assessment so they would be classified at FV-OCI. In doing so, please:
2. describe the financial assets involved,
3. describe how the financial assets involved are managed within your company, and
4. provide information about the relative financial significance of the financial assets involved in terms of your total assets indicating the date and/or the period on which the assessment was made.

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1. Do you expect to apply the fair value option in IFRS 9 to avoid accounting mismatches on the types of financial assets, portfolios or products identified in Q14 (that is, on those that would qualify for the FV-OCI measurement category under the new requirements). In doing so, please:
2. describe the characteristics of the financial assets involved,
3. explain the accounting mismatch that is being addressed, and
4. provide information about the relative financial significance of the financial assets involved in terms of your total assets indicating the date and/or the period on which the assessment was made.

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**Part 3: Questions on the use of bifurcation**

*Eligible for bifurcation under IAS 39 and no longer bifurcated under IFRS 9*

Please identify the group (the Group) of financial assets which are eligible for bifurcation under IAS 39, and for which bifurcation is no longer allowed under IFRS 9, the subcategories as defined below and clarify the reasons for their current treatment.

*Currently measured at amortised cost*

1. Please identify in this Group those financial assets whose host instrument is currently measured at amortised cost. In doing so, please:
2. describe the characteristics of the financial instruments involved,
3. clarify the reasons for applying bifurcation, and
4. provide information about the relative financial significance of the financial assets involved in terms of your total assets indicating the date and/or the period on which the assessment was made.

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*Currently measured at available-for-sale*

1. Please identify in this Group those financial assets whose host instrument is currently measured at fair value as part of the available-for-sale category. In doing so, please:
2. describe the characteristics of the financial instruments involved,
3. clarify the reasons for using the available for sale category, and
4. provide information about the relative financial significance of the financial assets involved in terms of your total assets indicating the date and/or the period on which the assessment was made.

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*Currently measured under the fair value option*

1. Please identify in this Group those financial assets that are currently measured at fair value as part of the fair value option. In doing so, please:
2. describe the characteristics of the financial instruments involved,
3. clarify the reasons for using the fair value option, and
4. provide information about the relative financial significance of the financial assets involved in terms of your total assets indicating the date and/or the period on which the assessment was made.

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 *Addressing an accounting mismatch through the fair value option*

1. How will the absence of bifurcation for financial assets affect measurement of your financial liabilities (e.g. whether you expect to use more extensively the fair value option on financial liabilities to avoid an accounting mismatch)?

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**Part 4: Other Questions**

1. Based on your analysis provided in parts 2 and 3, does IFRS 9 as modified by the proposed amendments (the ED) result in more measurement at fair value or amortised cost in your balance sheet (asset side) compared to IAS 39? Please explain.

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1. Based on your analysis provided in parts 2 and 3, does IFRS 9 as modified by the proposed amendments (the ED) result in more measurement at fair value through profit or loss (FV-PL) compared to IAS 39? Please explain.

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1. Based on your analysis provided in parts 2 and 3, do you expect that IFRS 9 as modified by the proposed amendments (the ED) will have a significant impact on profit or loss, or other comprehensive income? Please explain.

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1. Based on your analysis provided in parts 2 and 3, does IFRS 9 as modified by the proposed amendments (the ED) result in more or less accounting mismatches in your balance sheet and in profit or loss? Please explain.

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1. Based on your analysis provided in parts 2 and 3, what is the impact of IFRS 9 as modified by the proposed amendments (the ED) on the reliability of financial information regarding financial assets? Please explain.

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1. Based on your analysis provided in parts 2 and 3, do you anticipate any practical difficulties in obtaining inputs to assess the fair value of financial assets currently measured at amortised cost under IAS 39 that would be measured at fair value basis under IFRS 9 as modified by the proposed amendments (the ED)?

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1. Based on your analysis provided in parts 2 and 3, do you anticipate any other difficulty in applying the classification and measurement requirements and guidance in IFRS 9 as modified by the proposed amendments (the ED)? Please explain.

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1. Based on your analysis provided in parts 2 and 3, do you have any other comments regarding the classification and measurement requirements in IFRS 9 as modified by the proposed amendments (the ED)?

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**Part 5: Specific Questions on liquidity portfolios and portfolios backing insurance liabilities**

*A – Liquidity portfolios*

1. Please identify in which categories under the new requirements you expect to classify your liquidity portfolio. In doing so, please:
2. describe the characteristics of the financial assets involved,
3. describe how the liquidity portfolio is managed within your company, and
4. provide information about the relative financial significance of each measurement category where you expect to classify the liquidity portfolio, or part of it, (i.e. amortised cost, FV-OCI and FV-PL) and explain the reasons supporting such classification and measurement.

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*B – Portfolios backing insurance liabilities*

1. Please identify the portfolios of financial assets that you hold to back insurance liabilities and in which categories under the new requirements you expect to classify them. Please:
2. describe the characteristics of the portfolios involved,
3. describe how the portfolios are managed within your company, and
4. provide information about the relative financial significance of each measurement category where you expect to classify these portfolios (i.e. amortised cost, FV-OCI and FV-PL) and explain the reasons supporting such classification and measurement.

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