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Heads Up

In This Issue:

IFRS 9 (2014) marks the completion of the IASB's project to improve the accounting for financial instruments and to replace IAS 39.

Mission Accomplished

IASB Completes Its Project on Accounting for Financial Instruments Under IFRS 9

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On July 24, 2014, the IASB issued amendments to IFRS 9[1] that introduce a new impairment model to IFRSs and modify the standard's existing classification and measurement guidance. IFRS 9 as amended in 2014 (IFRS 9 (2014)) is effective for annual periods beginning on or after January 1, 2018, although entities can elect to apply it earlier.

This *Heads Up* gives an overview of IFRS 9 (2014) that focuses on the standard's new guidance on (1) classification and measurement and (2) impairment. It also discusses the FASB's projects to revise the guidance on these respective topics under U.S. GAAP.

In addition, this *Heads Up* contains the following appendixes:

- Appendix A compares classification and measurement of financial instruments under both U.S. GAAP and the FASB's tentative approach with the classification and measurement guidance in IFRS 9 (2014).
- Appendix B illustrates the application of the classification and measurement guidance in IFRS 9.
- Appendix C compares the credit loss impairment model under the FASB's tentative approach with the impairment guidance in IFRS 9 (2014).

Editor's Note: IFRS 9 (2014) marks the completion of the IASB's project to improve the accounting for financial instruments and to replace IAS 39.[2] The FASB is expected to release new impairment guidance and revised classification and measurement guidance later in 2014. While the IASB previously conducted the project jointly with the FASB and both boards originally hoped to converge their guidance on financial instruments under IFRSs and U.S. GAAP, respectively, that objective has not been achieved.

The guidance in IFRS 9 (2014) differs from both existing U.S. GAAP and the changes to U.S. GAAP that the FASB expects to make in the near future. Differences between the amounts reported in financial statements prepared under IFRSs and those reported in financial statements prepared under U.S. GAAP could be greater depending on the specific facts and circumstances once the 2014 amendments to IFRS 9 become effective and the FASB releases its new requirements related to accounting for financial instruments.

[1] IFRS 9, *Financial Instruments.*

[2] IAS 39, *Financial Instruments: Recognition and Measurement.*

Background

IFRS 9 (2014) addresses the following aspects of accounting for financial assets and financial liabilities:

- Classification and measurement.
- Recognition and derecognition.
- Hedge accounting.
- Impairment.

Previous versions of IFRS 9 addressed all of these topics except impairment. The 2014 amendments to IFRS 9 modify the standard's existing guidance on classification and measurement and add guidance on impairment of financial assets.

Classification and Measurement

Unlike the classification and measurement approach under U.S. GAAP, that of IFRS 9 establishes categories that apply to both loan receivables and investments in debt securities.

The first version of IFRS 9, which was issued in 2009, introduced a new classification and measurement model for financial assets. Under that model, financial assets are classified on the basis of their contractual cash flow characteristics and the business model in which they are managed. Unless financial assets qualify for the fair value option and the entity elects to apply that option, such assets are measured at amortized cost if (1) the contractual cash flows are solely payments of principal and interest on the principal amount outstanding ("SPPI") and (2) the objective of the business model in which the assets are managed is to hold assets to collect contractual cash flows. Before the 2014 amendments to IFRS 9, all other financial assets within the scope of the standard were measured at fair value through profit or loss (FVTPL), except for nontrading equity investments for which an entity has an irrevocable option to recognize changes in value in other comprehensive income (OCI) with no subsequent recycling to profit or loss. The 2014 amendments introduce an additional classification and measurement category and clarify other guidance (see New FVTOCI Category, Clarification of Existing Guidance on the Business Model Assessment, and New Guidance on the Contractual Cash Flow Characteristics Assessment below).

Editor's Note: In December 2013, in a radical departure from the proposals in its February 2013 exposure draft, the FASB tentatively decided not to move forward with a converged cash flow characteristics test, noting that the test would be swapping known complexity (i.e., the bifurcation guidance in ASC 815-15[3]) for unknown complexity (i.e., how to assess whether contractual cash flows are SPPI). In early 2014, the FASB tentatively decided not to proceed with a converged business model test and decided instead to consider targeted improvements of current requirements related to the classification and measurement of loan receivables and investments in securities under U.S. GAAP.

Unlike the classification and measurement approach under U.S. GAAP, that of IFRS 9 establishes categories that apply to both loan receivables and investments in debt securities. The two approaches also differ in the criteria used to determine the appropriate measurement category. Further, IFRS 9 allows entities to elect the fair value option for a financial asset only if it eliminates or significantly reduces a measurement mismatch, whereas U.S. GAAP and the FASB's tentative approach do not impose such a restriction.

In addition, while entities may be required to bifurcate embedded derivatives in hybrid financial assets under U.S. GAAP, they are precluded from doing so under IFRS 9. Therefore, such embedded derivatives may affect the assessment of a hybrid financial asset's contractual cash flow characteristics under IFRS 9.

In 2010, the IASB added guidance in IFRS 9 on the classification and measurement of financial liabilities. Under that guidance, financial liabilities are measured at amortized

[3] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

cost, except for derivative and trading liabilities, which are measured at FVTPL, and those for which the entity has elected a fair value option. Generally, gains and losses on financial liabilities for which the fair value option is elected should be recognized in OCI to the extent that they are attributable to changes in the liability's credit risk, and changes that are not attributable to credit risk should be recognized in profit or loss.

Editor's Note: By requiring entities to present gains and losses attributable to the liability's credit risk in OCI except when certain narrow criteria are met, the IASB prevents the entities from counterintuitively reporting gains in profit or loss as their creditworthiness is deteriorating. The FASB has tentatively decided to introduce a similar requirement related to financial liabilities for which the fair value option has been elected under U.S. GAAP. Unlike IFRS 9, however, the FASB's tentative approach would require recycling if the gains and losses recognized in OCI are subsequently realized.

Recognition and Derecognition

In 2010, the IASB relocated the recognition and derecognition guidance that previously existed in IAS 39 to IFRS 9. Under that guidance, the determination of whether a transferred financial asset should be derecognized is primarily based on an assessment of the extent to which the entity has retained the asset's risks and rewards of ownership.

IFRS 9 (2014) introduces a new impairment model for financial assets that is based on expected losses rather than incurred losses, on which the impairment model in IAS 39 is based.

Editor's Note: The derecognition model for financial assets under IFRSs is fundamentally different from that under U.S. GAAP. The U.S. GAAP model is primarily based on an assessment of whether the transferor surrenders control of a financial asset.

Hedge Accounting

In 2013, the IASB incorporated a new hedge accounting approach into IFRS 9. That approach aligns hedge accounting more closely with an entity's risk management activities than the former hedge accounting approach under IAS 39. For example, the guidance in IFRS 9 permits entities to designate certain nonfinancial risk components as hedged items and removes some of the quantitative bright-line tests that entities previously performed under IAS 39 to determine whether a hedging relationship qualifies for hedge accounting.

Editor's Note: In general, the hedge accounting approach under IFRS 9 differs from U.S. GAAP more significantly than the prior hedge accounting approach under IAS 39. The FASB currently has a research project on its agenda to consider improvements to the hedge accounting guidance under U.S. GAAP but has not yet made any decisions about whether and, if so, how such guidance may change. For more information about the IASB's new hedge accounting model, see Deloitte's November 26, 2013, *Heads Up*.

The IASB currently has a project on its agenda to address the accounting for dynamic risk management ("macro hedging"). This project may result in future amendments to the hedge accounting requirements in IFRS 9.

New Impairment Model

IFRS 9 (2014) introduces a new impairment model for financial assets that is based on expected losses rather than incurred losses, on which the impairment model in IAS 39 is based. The new model applies to amortized-cost financial assets and financial assets in IFRS 9's new fair value through other comprehensive income (FVTOCI) category as well as to certain loan commitments, financial guarantees, lease receivables, and contract assets.

Editor's Note: Until June 2012, the FASB and the IASB jointly deliberated an impairment model known as the "three-bucket approach," which was broadly similar to the new IFRS 9 impairment approach. In response to feedback from U.S. constituents on the joint model, however, the FASB decided to develop an alternative impairment model — the current expected credit loss (CECL) model — and issued a proposed ASU on that model in December 2012. For more information about the FASB's proposed CECL model and tentative decisions reached to date, see Deloitte's December 21, 2012, *Heads Up* and Deloitte's June 16, 2014, journal entry.

General Approach

IFRS 9 (2014) uses a dual-measurement approach for expected credit losses. For financial assets other than purchased or originated credit-impaired financial assets, which are discussed below, the standard requires entities to measure expected credit losses by recognizing a loss allowance at an amount equal to either of the following:

- *The 12-month expected credit losses* (i.e., the expected credit losses that result from default events on the financial instrument that are possible within 12 months after the reporting date). This measurement is required if the credit risk is low[4] as of the reporting date or the credit risk has not increased significantly since initial recognition.
- *Full lifetime expected credit losses* (i.e., the expected credit losses that result from all possible default events over the life of the financial instrument). Unless the credit risk is low as of the reporting date, this measurement is required if the credit risk has increased significantly since initial recognition. It is also required for contract assets and trade receivables that do not contain a significant financing component in accordance with IFRS 15.[5]

In contrast to the impairment model in IFRS 9, the FASB's tentative impairment model would require entities to recognize current expected credit losses for all assets, not just those for which there has been a significant increase in credit risk since initial recognition.

Further, entities can elect an accounting policy of always recognizing full lifetime expected losses for contract assets, trade receivables, and lease receivables.

Editor's Note: IFRS 9 (2014) highlights that 12-month expected credit losses are neither of the following:

- The "cash shortfalls that are predicted over the next 12 months."
- The "lifetime expected credit losses that an entity will incur on financial instruments that it predicts will default in the next 12 months." Entities would be required to measure such assets by using lifetime expected credit losses, which take into account the probability of default, not just a most likely outcome.

Both the impairment model in IFRS 9 and the FASB's tentative impairment model are based on expected credit losses. However, the FASB's tentative approach would require entities to recognize current expected credit losses for all assets, not just those for which there has been a significant increase in credit risk since initial recognition. The IASB rejected such an approach, in part because of constituent concerns that it does not reflect the economic link between initial pricing and the initial expectations of credit losses (when an entity prices a financial instrument, part of the contractual yield compensates the entity for the credit losses initially expected).

The assessment of whether there has been a significant increase in credit risk is based on an increased probability of default since initial recognition. The standard permits entities to use various approaches to assess whether credit risk has increased significantly. In

[4] Under IFRS 9, credit risk is considered low if there is 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 borrower's ability to fulfill its contractual cash flow obligations. The standard suggests that an "investment grade" rating might be an indicator of low credit risk.

[5] IFRS 15, *Revenue From Contracts With Customers*.

addition, the guidance includes a rebuttable presumption that the credit risk has increased significantly when contractual payments are more than 30 days past due.

If a significant increase in credit risk reverses in a subsequent reporting period (i.e., the cumulative credit risk is not significantly higher than the credit risk at initial recognition) the expected credit losses on the financial instrument revert to being measured at an amount equal to the 12-month expected credit losses.

Purchased or Originated Credit-Impaired Financial Assets

Purchased or originated credit-impaired financial assets (e.g., distressed debt) are treated differently. For these assets, an entity recognizes only the cumulative change in lifetime expected losses since initial recognition as a loss allowance. Changes in lifetime expected losses since initial recognition are recognized in profit or loss. Thus, any favorable change in lifetime expected credit losses since initial recognition of a purchased or originated credit-impaired financial asset is recognized as an impairment gain in profit or loss regardless of whether a corresponding impairment loss was recorded for the asset in prior periods.

Editor's Note: Under the FASB's tentative approach, the allowance for purchased credit-impaired (PCI) financial assets is an amount equal to the current expected credit losses. Interest income recognition is based on purchase price plus the initial allowance accreting to the contractual cash flows.

The requirements in IFRS 9 essentially prohibit entities from estimating expected credit losses solely on the basis of the most likely outcome.

Method for Estimating Expected Credit Losses

The measurement of expected credit losses reflects an unbiased and probability-weighted amount that entities would determine by evaluating the range of possible outcomes. When measuring expected credit losses, entities should also consider the time value of money as well as reasonable and supportable information about past events, current conditions, and forecasts of future economic conditions.

The standard defines expected credit losses as the "weighted average of credit losses with the respective risks of a default occurring as the weights." Although an entity is not required to take every possible scenario into account when measuring expected credit losses, it must at a minimum consider "the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low."

An entity may use practical expedients when estimating expected credit losses if they are consistent with the principles in the standard (e.g., the entity may calculate expected credit losses on trade receivables by using a provision matrix that applies a fixed provision rate depending on the number of days in which the trade receivables are outstanding).

To reflect the time value of money, entities should discount expected losses to present value as of the reporting date, generally by using the asset's "effective interest rate" (or an approximation thereof) as determined at initial recognition. However, a "credit-adjusted effective interest rate" should be used for expected credit losses of purchased or originated credit-impaired financial assets. In contrast to the effective interest rate, which is based on expected cash flows without adjustment for expected credit losses, the credit-adjusted effective interest rate takes into account the expected credit losses of the financial asset.

Editor's Note: For an individual financial asset, the measurement of expected credit losses must include a probability-weighted assessment of credit losses even if credit losses are unlikely and the most probable outcome is that the entity will collect the full contractual cash flows and will not incur any credit losses. The requirements in IFRS 9 essentially prohibit entities from estimating expected credit losses solely on the basis of the most likely outcome.

Modifications and Write-Offs

If a renegotiation or other modification of the contractual cash flows of a financial asset results in derecognition under IFRS 9, the revised instrument is treated as a new instrument. If a renegotiation or other modification of the contractual cash flows of a financial asset does not result in derecognition, the entity should recalculate the gross carrying amount of the financial asset (i.e., amortized cost amount before adjusting for any loss allowance) by discounting the new expected contractual cash flows (post-modification) at the original effective interest rate and recognizing any resulting modification gain or loss in profit or loss. When a financial instrument is not treated as a new instrument, the entity assesses from the date of renegotiation or other modification whether the instrument's credit risk has increased significantly since initial recognition by comparing the risk of default as of the reporting date (under modified terms) with the risk of default as of initial recognition (under original, unmodified terms).

IFRS 9 requires entities to write off all or a portion of a financial asset by directly reducing the gross carrying amount when they have no reasonable expectation of recovery.

Presentation of Interest Revenue

While interest revenue is presented as a separate line item, the method used to calculate it will vary depending on whether the financial asset is deemed to be credit-impaired. A financial asset is considered to be credit-impaired when its expected future cash flows are significantly affected by the occurrence of one or more events.

The method used to calculate interest revenue will vary depending on whether the financial asset is deemed to be credit-impaired.

For a financial asset other than a purchased or originated credit-impaired financial asset, an entity should calculate interest revenue as follows:

- If the financial asset has not become credit-impaired since initial recognition, the entity applies the effective interest rate method to the gross carrying amount ("gross method").
- If the financial asset has subsequently become credit-impaired, the entity applies the effective interest rate to the amortized cost balance, which is the gross carrying amount adjusted for any loss allowance ("net method").

An entity using the net method should revert to the gross method if (1) the credit risk of the financial instrument subsequently improves to the extent that the financial asset is no longer credit-impaired and (2) the improvement is objectively related to an event that occurred after the net method was applied.

When recognizing revenue related to purchased or originated credit-impaired financial assets, an entity applies the credit-adjusted effective interest rate to the amortized cost carrying amount. The credit-adjusted effective interest rate is the rate used to discount the cash flows expected at initial recognition to the amortized cost at initial recognition; it takes into account the expected credit losses as well as the contractual terms of the instrument.

Editor's Note: The net method is required when the financial asset becomes credit-impaired. This triggering event differs from the one specified in the standard's guidance on measuring expected credit losses, which requires an entity to change its measurement from 12-month expected credit losses to lifetime expected credit losses when the credit risk of the financial asset has significantly deteriorated.

Disclosures

The new expected loss impairment model is accompanied by extensive disclosure requirements that are added to IFRS 7.[6] The required disclosures are designed to enable users of financial statements to understand the effect of credit risk on the amount, timing, and uncertainty of future cash flows.

[6] IFRS 7, *Financial Instruments: Disclosures.*

Transition for the Expected Loss Impairment Model

The amendments are applicable retrospectively in accordance with IAS 8,[7] except as follows:

- When initially applying IFRS 9 (2014), an entity should compare the credit risk of a financial instrument at initial recognition (or, for loan commitments and financial guarantee contracts, the credit risk as of the date on which the entity became a party to the irrevocable commitment) with the credit risk as of the date on which the entity initially applies the standard.
- If determining whether the credit risk has increased significantly since initial recognition would involve undue cost or effort when IFRS 9 (2014) is first applied, the entity should recognize a loss allowance equal to lifetime expected credit losses as of each reporting date until the financial instrument is derecognized. However, if the financial instrument's credit risk is low as of a reporting date, the credit risk may be assumed not to have increased significantly since initial recognition.

Amended Classification and Measurement Guidance

New FVTOCI Category

The 2014 amendments to IFRS 9 add a new FVTOCI category to the standard's existing classification and measurement guidance. The amended guidance provides that unless a financial asset qualifies for the fair value option and that option is elected, the asset should be accounted for at FVTOCI if both of the following criteria are met:

- The financial asset satisfies the requirements of the contractual cash flow characteristics test.
- The "financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets."

For assets in the FVTOCI category, interest revenue, foreign exchange gains and losses, and impairment gains and losses are recognized in profit or loss and any other fair value changes are recognized in OCI. Any cumulative gain or loss recorded in OCI is reclassified as profit or loss on derecognition, or potentially earlier if the asset is reclassified because of a change in business model.

The FVTOCI category for debt instruments is not the same as the available-for-sale category under IAS 39 or U.S. GAAP.

Editor's Note: The FVTOCI category for debt instruments is not the same as the available-for-sale category under IAS 39 or U.S. GAAP. Unlike the available-for-sale criteria, the criteria for measuring at FVTOCI are based on the asset's cash flow characteristics and the entity's business model. Further, impairment of assets in the FVTOCI category is recognized and measured on the basis of expected credit losses in a manner consistent with the measurement of assets at amortized cost.

Clarification of Existing Guidance on the Business Model Assessment

The 2014 amendments to IFRS 9 clarify the standard's existing guidance on assessing whether the entity's business model objective for financial assets is to collect the assets' contractual cash flows (i.e., one of the two criteria for measuring a financial asset at amortized cost). When sales of financial assets other than those conducted in response to credit deterioration are more than infrequent and more than insignificant in value (either individually or in aggregate), the entity needs to assess whether and, if so, how such sales are consistent with an objective of collecting contractual cash flows. The sales may be consistent with that objective if they "are made close to the maturity of the financial assets and the proceeds from the sales approximate the collection of the remaining contractual cash flows."

[7] IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

Editor's Note: Entities that report under IFRS 9 will need to assess their business models for holding financial assets. For some entities, such as nonfinancial corporations, the assessment may be relatively simple since their financial assets may be limited to trade receivables and bank deposits for which the amortized cost criteria are likely to be met. For entities that engage in a broader range of activities involving financial assets (e.g., lenders, investors in debt securities held for treasury activities, insurance entities, and traders), it will take more effort to understand the business model and consider the motivations that would lead to disposals of financial assets.

New Guidance on the Contractual Cash Flow Characteristics Assessment

The 2014 amendments to IFRS 9 introduce new guidance on how the contractual cash flows characteristics assessment applies in certain cases.

Some debt instruments may contain a modified time value element. For example, a variable interest rate may be resettable monthly to a one-year interest rate rather than a one-month rate. In assessing whether such an instrument meets the SPPI test, an entity assesses how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (i.e., a comparison to the benchmark cash flows for an unmodified instrument). If the undiscounted contractual cash flows could be significantly different from the undiscounted benchmark cash flows under reasonably possible scenarios, the debt instrument fails to satisfy the contractual cash flow characteristics test and must therefore be accounted for at FVTPL.

Entities that report under IFRS 9 will need to assess their business models for holding financial assets.

When a debt instrument contains a prepayment feature, the asset meets the cash flow characteristics criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal outstanding (which may include additional compensation for the early termination of the contract). When the financial asset is acquired or originated at a premium or discount to the contractual par amount and the fair value of the prepayment feature at initial recognition is insignificant, the asset meets the contractual cash flow characteristics test if the prepayment amount substantially represents the contractual par amount and accrued (but unpaid) contractual interest (which may include reasonable additional compensation).

Transition for Amended Classification and Measurement Guidance

The amendments to the classification and measurement guidance apply retrospectively in accordance with IAS 8, subject to certain exceptions. For example, if it is impracticable for an entity to assess a modified time value of money element on the basis of the facts and circumstances at initial recognition of the financial asset, the entity should perform the contractual cash flow characteristics test without taking that modified element into account.

Appendix A — Comparison of Classification and Measurement Models

The table below compares the classification and measurement models under current U.S. GAAP and the FASB's tentative approach, respectively, with the classification and measurement guidance in IFRS 9 (2014).

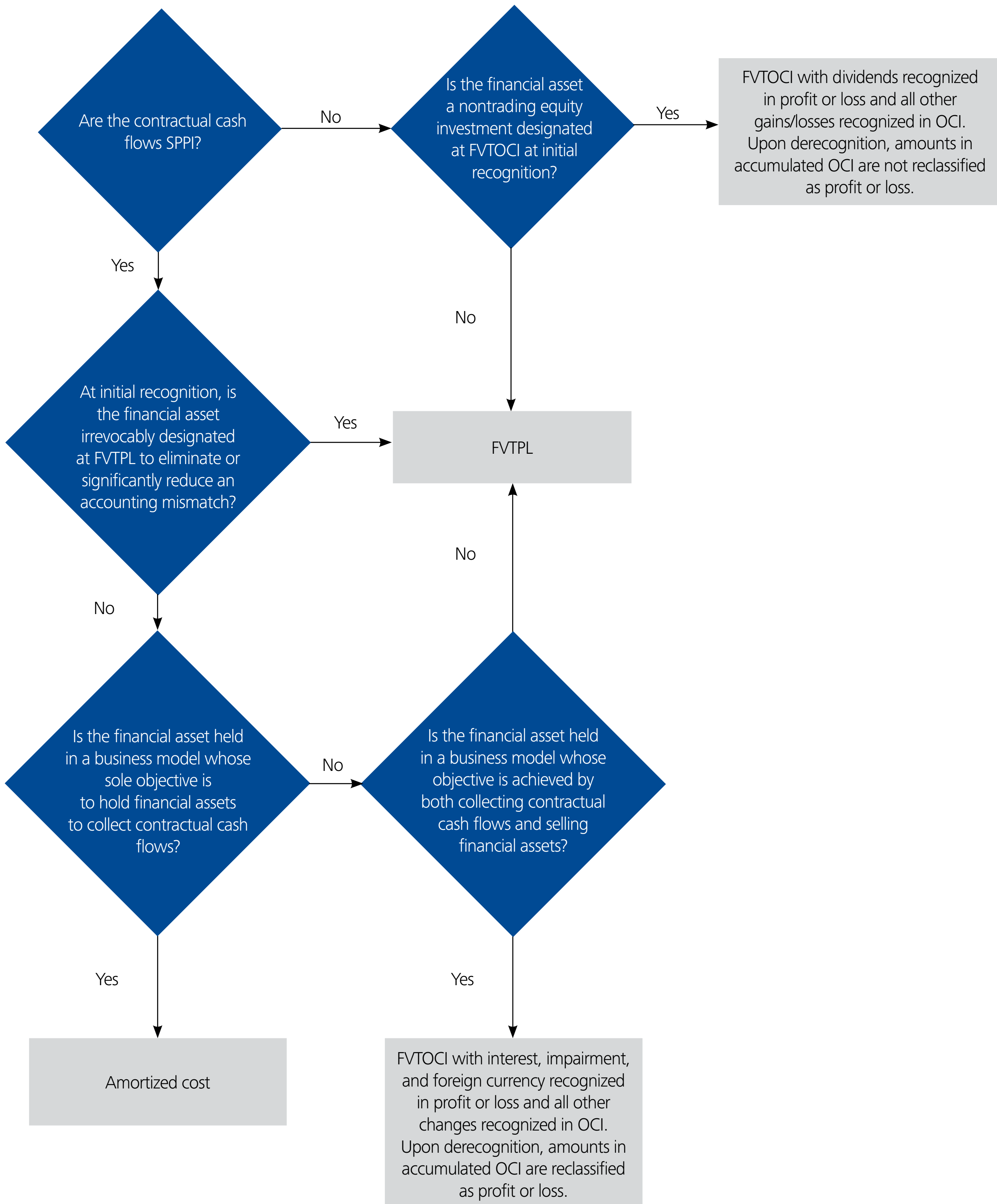
Subject	Current U.S. GAAP and the FASB's Tentative Approach	IFRS 9 (2014)
Classification and measurement categories for financial assets other than equity investments	Under ASC 320, entities use one of the following three categories to classify and measure investments in securities: • Trading (fair value through net income (FVTNI)). • Available for sale (FVTOCI). • Held to maturity (amortized cost). Under ASC 310, entities use one of the following two categories to classify and measure loans: • Held for investment (amortized cost). • Held for sale (lower of cost or fair value). The FASB has tentatively decided not to change these requirements.	Three categories: • Amortized cost. • FVTOCI. • FVTPL.
Classification and measurement categories for equity investments	Under existing U.S. GAAP, marketable equity securities other than equity-method investments (those for which the investor has significant influence over the investee) are classified as either held for trading (FVTNI) or available for sale (FVTOCI). For available-for-sale equity securities, any amounts in accumulated OCI are recycled to net income upon sale or an other-than-temporary impairment. Investments in nonmarketable equity securities other than equity-method investments are measured at cost (less impairment) unless the fair value option has been elected. The FASB has tentatively decided to require entities to carry all investments in equity securities that do not qualify for the equity method at FVTNI. For equity investments that do not have a readily determinable fair value, the FASB has tentatively decided to provide a practicability exception to fair value measurement under which the investment would be measured at cost less impairment plus or minus observable price changes. This exception would not be available to investment companies and broker-dealers.	Equity investments other than equity-method investments are accounted for at FVTPL with an option to irrevocably designate equity investments that are not held for trading at FVTOCI at initial recognition. For FVTOCI equity investments, any amounts in accumulated OCI are not transferred to profit or loss even if the investment is sold or impaired. In limited circumstances, "cost may be an appropriate estimate of fair value."
Classification and measurement categories for financial liabilities	Nonderivative financial liabilities (primarily an entity's own debt) are accounted for at amortized cost unless an entity elects to use the fair value option. Derivative financial liabilities and short-sale obligations are measured at fair value. The FASB is not changing the accounting for financial liabilities, except for the presentation of certain fair value changes for fair value option liabilities (see below).	Financial liabilities are carried at amortized cost, except for derivative and trading liabilities and those designated under the fair value option (see below).
Method for classifying financial assets	For securities, the classification depends on whether the entity holds the security for trading or has the intent and ability to hold it to maturity. For loans, the classification depends on whether the loan is held to maturity or for the foreseeable future. The FASB has tentatively decided not to change these requirements.	The classification is based on both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Subject	Current U.S. GAAP and the FASB's Tentative Approach	IFRS 9 (2014)
Criteria for carrying financial assets at amortized cost	The following financial assets are carried at amortized cost: • Debt securities that the entity has the positive intent and ability to hold to maturity. • Loans that the entity has the intent and ability to hold to maturity or the foreseeable future. The FASB has tentatively decided not to change these requirements.	Financial assets are carried at amortized cost if they satisfy both of the following criteria: • They meet the cash flow characteristics criterion. • They are held in a business model whose objective is to hold assets for the collection of contractual cash flows.
Criteria for measuring financial assets other than equity investments at FVTOCI	The following financial assets other than equity investments are measured at FVTOCI: • Investments in debt securities that are not classified as either trading or held to maturity. • Loans not classified as held for trading if the investor is contractually at risk of not recovering substantially all of its initially recorded investment. The FASB has tentatively decided not to change these requirements.	Financial assets other than equity investments are measured at FVTOCI if they satisfy both of the following criteria: • They meet the cash flow characteristics criterion. • They are held in a business model in which assets are managed both to collect contractual cash flows and for sale.
Criteria for measuring financial assets other than equity investments at FVTNI (or FVTPL)	The following financial assets other than equity investments are measured at FVTNI: • Debt securities bought and held principally for trading. • Loans bought and held principally for trading if the investor is contractually at risk of not recovering substantially all of its initially recorded investment. • Financial assets elected under the fair value option (see below). The FASB has tentatively decided not to change these requirements.	The following financial assets other than equity investments are measured at FVTPL: • Financial assets that fail to qualify for either amortized cost or FVTOCI. • Financial assets designated under the fair value option (see below).
Criteria for measuring financial assets at the lower of cost or fair value	Loans held for sale.	Not applicable.
Unrealized foreign currency gains and losses on financial assets accounted for at FVTOCI	For available-for-sale debt securities, unrealized foreign currency gains and losses are deferred in OCI in a manner similar to how other unrealized gains and losses are deferred. The FASB has tentatively decided not to change these requirements.	Unrealized foreign currency gains and losses on nonequity investments accounted for at FVTOCI are recognized in profit or loss.
Hybrid financial assets	Embedded derivatives in hybrid financial assets are bifurcated and accounted for separately at FVTPL when certain conditions are met. The FASB has tentatively decided not to change these requirements.	An entity measures and classifies a hybrid financial asset in its entirety, taking into consideration the instrument's contractual cash flow characteristics and the business model in which the instrument is managed. Bifurcation of embedded derivatives in hybrid financial assets is prohibited.

Subject	Current U.S. GAAP and the FASB's Tentative Approach	IFRS 9 (2014)
Fair value option — qualifying conditions	For financial instruments within the scope of the guidance, an entity is not required to meet qualifying conditions before electing the fair value option. At its meeting on April 4, 2014, the FASB tentatively decided not to require an entity to meet qualifying conditions before electing the fair value option.	The fair value option may be elected only if qualifying conditions are met. An entity may elect the fair value option for a financial asset if exercising the option would eliminate or significantly reduce an accounting mismatch. An entity may elect the fair value option for a financial liability if either of the following conditions applies: • Exercising the option would eliminate or significantly reduce an accounting mismatch. • A "group of financial liabilities or [a group of] financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel." An entity may elect the fair value option for a hybrid financial liability unless either of the following conditions applies: • The embedded derivative or derivatives do not "significantly modify the cash flows that otherwise would be required by the contract." • "[I]t is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative(s) is prohibited."
Presentation of fair value changes attributable to instrument-specific credit risk for financial liabilities designated under the fair value option	The FASB has tentatively decided that the portion of the total fair value change caused by a change in instrument-specific credit risk is recognized in OCI. Any accumulated amount remaining in OCI is reclassified as earnings when the liability is extinguished. There are no similar requirements under existing U.S. GAAP.	The portion of the total fair value change caused by a change in the liability's credit risk is recognized in OCI unless such treatment would create or enlarge an accounting mismatch in profit or loss. This amount is not subsequently transferred to profit or loss.
Reclassification of financial assets other than equity investments	Reclassification is permitted in certain circumstances. Transfers from the held-to-maturity category and transfers into or out of the trading category are expected to be rare. The FASB has tentatively decided not to change these requirements.	Reclassification is required if the business model changes. Recorded as of the first day of the period after the period in which the business model changes.

Appendix B — Application of the IASB's Classification and Measurement Model

The flowchart below illustrates the application of the classification and measurement guidance in IFRS 9 (2014).



Appendix C — Comparison of Credit Loss Impairment Models

The table below summarizes key similarities and differences between the credit loss impairment model under the FASB's tentative approach and the model in IFRS 9 (2014).

Subject	FASB's Tentative Approach	IFRS 9 (2014)
Scope	Applies to: • Financial assets measured at amortized cost. • Debt securities classified as available for sale.	Applies to: • Financial assets measured at amortized cost. • Financial assets mandatorily measured at FVTOCI. • Loan commitments when there is a present obligation to extend credit (except for those measured at FVTPL under IFRS 9 (2014)). • Financial guarantee contracts to which IFRS 9 is applied (except for those measured at FVTPL). • Lease receivables within the scope of IAS 17.[8] • Contract assets within the scope of IFRS 15.
Recognition threshold	None. Impairment is based on expected (rather than incurred) credit losses, except that no impairment allowance is recognized for FVTOCI financial assets if the fair value exceeds its carrying amount.	None. Impairment is based on expected (rather than incurred) credit losses. The IASB does not provide an exception for FVTOCI financial assets.
Measurement	Single-measurement approach: current expected credit losses (i.e., all contractual cash flows that the entity does not expect to collect).	Dual-measurement approach: • For assets in the first category, 12-month expected credit losses. • For assets in the second category, lifetime expected credit losses.
Transfer criteria between measurement categories	Not applicable in CECL model. Only one measurement attribute.	Transfer to lifetime expected credit losses when there has been significant deterioration in credit quality since initial recognition unless low credit risk. Transfer back to 12-month expected credit losses when transfer criteria are no longer satisfied.
Presentation of impairment allowance for financial assets	Valuation allowance (or contra-asset).	Same as under the FASB's model.
PCI financial assets	The allowance for PCI financial assets is the current expected credit losses. Interest income recognition is based on purchase price plus the initial allowance accreting to the contractual cash flows. The non-credit-related discount or premium resulting from acquiring a pool of PCI financial assets is allocated to each individual financial asset.	The allowance for PCI financial assets is based on the cumulative change (from the original expectation at acquisition) in lifetime expected credit losses. Interest income recognition is based on applying the credit-adjusted effective interest rate to the amortized cost of the financial asset (rather than contractual cash flows).
Nonaccrual accounting	No guidance on this will be included in the final standard.	IFRSs do not permit nonaccrual of interest. However, for assets that have become credit-impaired, interest income is based on the net carrying amount of the credit-impaired financial asset.
Write-offs	An entity writes off the carrying amount of a financial asset if it ultimately determines that it has no reasonable expectation of future recovery.	Same as under the FASB's model.

[8] IAS 17, *Leases*.

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