

# IAS 39 *Financial Instruments: Recognition and Measurement*

as issued at 1 January 2009

*This extract has been prepared by IASC Foundation staff and has not been approved by the IASB. For the requirements reference must be made to International Financial Reporting Standards.*

## Objective

The objective of this Standard is to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Requirements for presenting information about financial instruments are in IAS 32 *Financial Instruments: Presentation*. Requirements for disclosing information about financial instruments are in IFRS 7 *Financial Instruments: Disclosures*.

## Classification

This Standard classifies financial instruments into the following four categories:

- A financial asset or financial liability at fair value through profit or loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets.

An amendment to the Standard, issued in June 2005, permits an entity to designate a financial asset or financial liability (or a group of financial assets, financial liabilities or both) on initial recognition as one(s) to be measured at fair value, with changes in fair value recognised in profit or loss. To impose discipline on this categorisation, an entity is precluded from reclassifying financial instruments into or out of this category.

## Reclassifications

An amendment to the Standard, issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future.



## **Initial recognition**

An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument.

## **Initial measurement of financial assets and financial liabilities**

When a financial asset or financial liability is recognised initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

## **Subsequent measurement of financial assets**

For the purpose of measuring a financial asset after initial recognition, this Standard classifies financial assets into the following four categories defined in paragraph 9:

- (a) financial assets at fair value through profit or loss;
- (b) held-to-maturity investments;
- (c) loans and receivables; and
- (d) available-for-sale financial assets.

After initial recognition, an entity shall measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets:

- (a) loans and receivables as defined in paragraph 9, which shall be measured at amortised cost using the effective interest method;
- (b) held-to-maturity investments as defined in paragraph 9, which shall be measured at amortised cost using the effective interest method; and
- (c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost (see Appendix A paragraphs AG80 and AG81).

Financial assets that are designated as hedged items are subject to measurement under the hedge accounting requirements in paragraphs 89–102. All financial assets except those measured at fair value through profit or loss are subject to review for impairment in accordance with paragraphs 58–70 and Appendix A paragraphs AG84–AG93.

## **Impairment and uncollectibility of financial assets**

An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

## **Subsequent measurement of financial liabilities**

After initial recognition, an entity shall measure all financial liabilities at amortised cost using the effective interest method, except for:

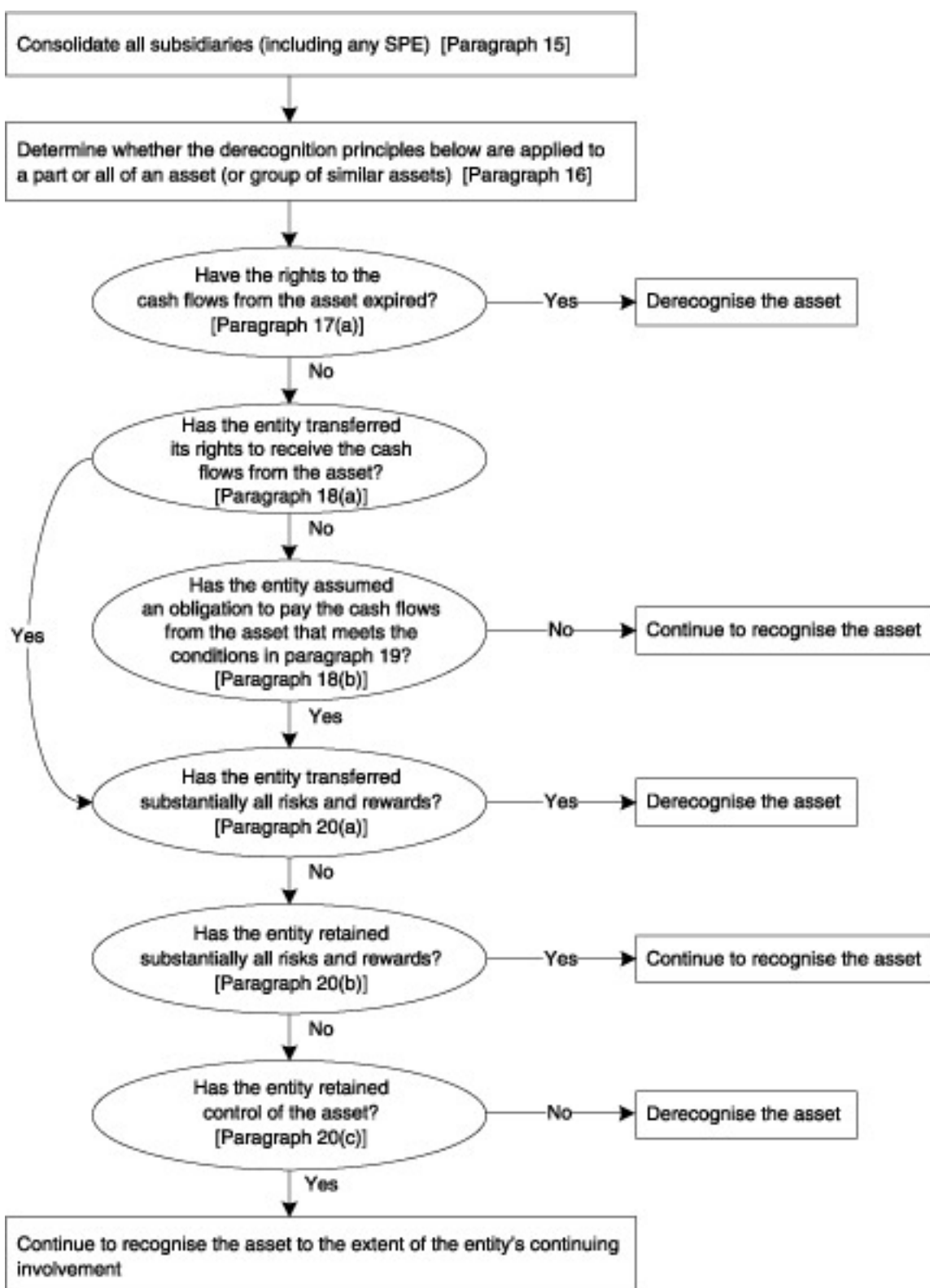
- (a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, which shall be measured at cost.
- (b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. Paragraphs 29 and 31 apply to the measurement of such financial liabilities.
- (c) financial guarantee contracts as defined in paragraph 9. After initial recognition, an issuer of such a contract shall (unless paragraph 47(a) or (b) applies) measure it at the higher of:
  - (i) the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
  - (ii) the amount initially recognised (see paragraph 43) less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.
- (d) commitments to provide a loan at a below-market interest rate. After initial recognition, an issuer of such a commitment shall (unless paragraph 47(a) applies) measure it at the higher of:
  - (i) the amount determined in accordance with IAS 37; and
  - (ii) the amount initially recognised (see paragraph 43) less, when appropriate, cumulative amortisation recognised in accordance with IAS 18.

### **Derecognition of a financial liability**

An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires.

### **Derecognition of a financial asset**

The following flow chart illustrates the evaluation of whether and to what extent a financial asset is derecognised.



## Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship, shall be recognised, as follows.

- (a) A gain or loss on a financial asset or financial liability classified as at fair value through profit or loss shall be recognised in profit or loss.
- (b) A gain or loss on an available-for-sale financial asset shall be recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. At that time the cumulative gain or loss previously recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment. However, interest calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established.

For financial assets and financial liabilities carried at amortised cost a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortisation process. However, for financial assets or financial liabilities that are hedged items the accounting for the gain or loss shall follow paragraphs 89–102.

## Hedging

If there is a designated hedging relationship between a hedging instrument and a hedged item as described in paragraphs 85–88 and Appendix A paragraphs AG102–AG104, accounting for the gain or loss on the hedging instrument and the hedged item shall follow paragraphs 89–102.

Hedging relationships are of three types:

- (a) *fair value hedge*: a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.
- (b) *cash flow hedge*: a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss.
- (c) *hedge of a net investment in a foreign operation* as defined in IAS 21.

If a fair value hedge meets the conditions in paragraph 88 during the period, it shall be accounted for as follows:

- (a) the gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount measured in accordance with IAS 21 (for a non-derivative hedging instrument) shall be recognised in profit or loss; and
- (b) the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available-for-sale financial asset.

If a cash flow hedge meets the conditions in paragraph 88 during the period, it shall be accounted for as follows:

- (a) the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (see paragraph 88) shall be recognised in other comprehensive income; and
- (b) the ineffective portion of the gain or loss on the hedging instrument shall be recognised in profit or loss.

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment (see IAS 21), shall be accounted for similarly to cash flow hedges:

- (a) the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (see paragraph 88) shall be recognised in other comprehensive income; and
- (b) the ineffective portion shall be recognised in profit or loss.