BMI APPRAISALS

# QUARTERLY HIGHLIGHT

June 2017
BMI Appraisals Limited

## Valuation for Financial Instruments under HKFRS 9

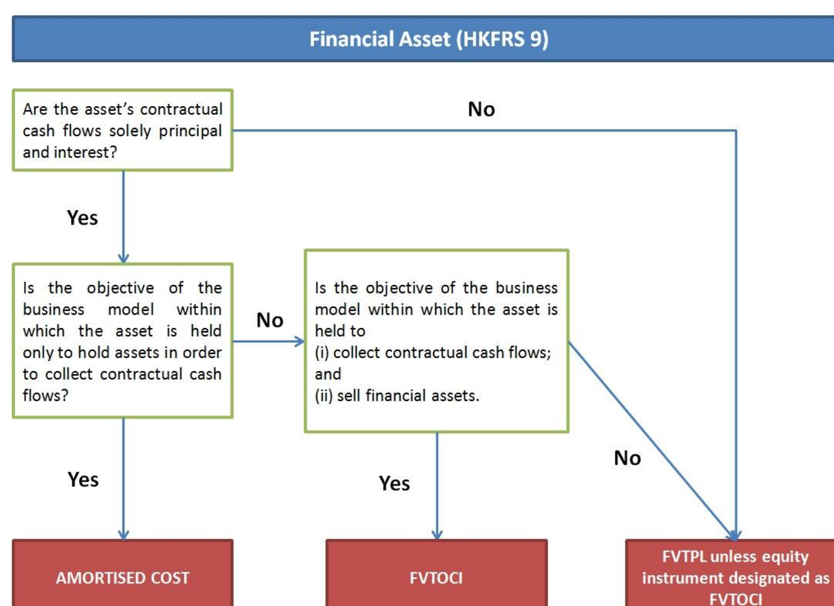
Effective for annual periods beginning on or after 1 January 2018, a new standard on financial instruments accounting - HKFRS 9 "Financial Instruments" will be adopted to replace HKAS 39 "Financial Instruments: Recognition and Measurement". The new standard introduces revised requirements on the classification and measurement of financial assets and also includes a new model for the recognition of impairment losses.

### Classification and Measurement of Financial Assets

HKFRS 9 removes the existing categories of held-to-maturity, loans and receivables as well as available-for-sale under HKAS 39. The exception allowing certain equity investments and derivatives linked to such investments to be measured at cost is also removed. Under HKFRS 9, financial assets are classified as measured at amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL"), depending on the entity's business model and contractual cash flow characteristics.

Some financial assets previously measured at amortized cost under HKAS 39 may need to be measured at FVTPL or FVTOCI under HKFRS 9. The host contract in a hybrid contract, that is eligible for measurement at amortized cost under HKAS 39, should be measured together with the embedded derivative as the entire hybrid contract at FVTPL. Entities may need to assess the fair values of these financial assets at the end of each reporting period.

The following flow chart sets out an overview of the classification of financial assets under HKFRS9.



## Recognition of Impairment Losses

Instead of the “incurred losses” model in HKAS 39, HKFRS 9 sets out a single impairment model that applies to all financial instruments in its scope. Under HKFRS 9 impairment model, expected credit losses (“ECL”) are measured as either 12-month ECL or lifetime ECL.

The ECL should reflect an unbiased and probability-weighted estimate of credit losses, which are the present value of all cash shortfalls over the expected life of the financial instrument. Entities should account for ECL and update the loss allowance for changes in the ECL at each reporting date to reflect changes in credit risk since initial recognition, which require for more timely and forward-looking information.

Should you have any enquiries, please do not hesitate to contact our Managing Director - Dr. Tony Cheng at (852) 2593 9633, our Senior Director - Ms. Joannau Chan at (852) 2593 9634 and our Director - Mr. Marco Sze at (852) 2593 9630. Your enquiries via our portal at www.bmi-appraisals.com or by email to enquiry@bmintelligence.com are also welcome.

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