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MFRS 9 financial instruments: classification and measurement of financial assets

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MFRS 9 is equivalent to IFRS 9 Financial Instruments as issued by IASB in July 2014. MFRS 9 replaced MFRS 139 Financial Instruments: Recognition and Measurement from 1 January 2018 to improve accounting for financial instruments. Among significant changes in the MFRS 9 relate~~s~~ to the classification and measurement of financial assets.

The new classification and measurement of MFRS 9, adopted an entirely new principal-based approach to classify and measure financial assets. If the financial assets are debt instrument they are classified on the basis of the business model within which they are held and their contractual cash flows characteristics. MFRS 9 permits financial assets to be classified as:

a. Financial assets at ***amortised cost*** if the objective of the entity's business model is to hold the financial assets in order to collect its contractual cash flows and the contractual cash flows represent solely payment of principal and interest.

b. Financial assets at ***fair value through other comprehensive income (FVTOCI)*** if the business model of the entity is achieved by both collecting contractual cash flows (solely payment of principal and interest) and selling the financial assets.

c. Financial asset at fair ***value through profit or loss (FVTPL)*** for all other financial assets (including equity instrument and derivative).

An entity can elect to classify a financial asset at FVTPL if doing so will reduce or eliminate a measurement or recognition inconsistency (accounting mismatch). Financial assets related to equity instrument are always measured at fair value and those that are held for trading are required to be measured at FVTPL. For other equity instruments, an entity can make an irrevocable election on initial recognition to measure its equity instruments at FVTOCI. When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets.

Initially all financial assets except for trade receivable (measured at amortised cost) shall be measured at its fair value plus or minus, transaction costs that are directly attributable to the acquisition of the financial assets. This means that transaction costs are excluded from initial measurement of financial asset measured at fair value. Transaction costs will be recognised as expenses in the statement of profit or loss. After initial recognition, an entity shall measure its financial assets based on their classification whether at amortised cost, FVTOCI or FVTPL. If financial assets are classified as amortised cost and FVTOCI, an entity shall apply the impairment requirement that requires recognition of loss allowance for expected credit losses.

References

MASB. MFRS 9 Financial Instrument. Retrieved from: http://www.masb.org.my/pages.php?id=89