

Curing of a Credit-impaired Financial Asset (IFRS 9 *Financial Instruments*)— March 2019

The Committee received a request about how an entity presents amounts recognised in the statement of profit or loss when a credit-impaired financial asset is subsequently cured (ie paid in full or no longer credit-impaired).

When a financial asset becomes credit-impaired, paragraph 5.4.1(b) of IFRS 9 requires an entity to calculate interest revenue by applying the ‘effective interest rate to the amortised cost of the financial asset’. This results in a difference between (a) the interest that would be calculated by applying the effective interest rate to the gross carrying amount of the credit-impaired financial asset; and (b) the interest revenue recognised for that asset. The request asked whether, following the curing of the financial asset, an entity can present this difference as interest revenue or, instead, is required to present it as a reversal of impairment losses.

Appendix A to IFRS 9 defines a credit loss as ‘the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (ie all cash shortfalls), discounted at the original effective interest rate...’. Appendix A also defines the gross carrying amount as ‘the amortised cost of a financial asset, before adjusting for any loss allowance.’ The Committee noted that, based on the definitions in Appendix A to IFRS 9, the gross carrying amount, amortised cost and loss allowance are discounted amounts, and changes in these amounts during a reporting period include the effect of the unwinding of the discount.

Paragraph 5.5.8 of IFRS 9 requires an entity to ‘recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with this Standard.’

The Committee observed that, applying paragraph 5.5.8 of IFRS 9, an entity recognises in profit or loss as a reversal of expected credit losses the adjustment required to bring the loss allowance to the amount that is required to be recognised in accordance with IFRS 9 (zero if the asset is paid in full). The amount of this adjustment includes the effect of the unwinding of the discount on the loss allowance during the period that the financial asset was credit-impaired, which means the reversal of impairment losses may exceed the impairment losses recognised in profit or loss over the life of the asset.

The Committee also observed that paragraph 5.4.1 specifies how an entity calculates interest revenue using the effective interest method. Applying paragraph 5.4.1(b), an entity calculates interest revenue on a credit-impaired financial asset by applying the effective interest rate to the amortised cost of the financial asset, and thus interest revenue on such a financial asset does not include the difference described in the request.

Accordingly, the Committee concluded that, in the statement of profit or loss, an entity is required to present the difference described in the request as a reversal of impairment losses following the curing of a credit-impaired financial asset.

The Committee concluded that the requirements in IFRS Standards provide an adequate basis for an entity to recognise and present the reversal of expected credit losses following the curing of a credit-impaired financial asset in the fact pattern described in the request. Consequently, the Committee decided not to add this matter to its standard-setting agenda.