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Project	**Financial instruments: classification and measurement**		
Paper topic	A FVOCI measurement category for debt investments		
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Introduction

1. At the joint board meeting in April 2012, the boards discussed the business model assessment for classifying financial assets at amortised cost. At that meeting, the boards tentatively concluded that financial assets with contractual cash flows that are solely payments of principal and interest (P&I) would qualify for amortised cost if the assets are held within a business model whose objective is to hold the assets in order to collect the contractual cash flows.

2. IASB AP 6B/FASB Memo 152 is the next in the series on the business model assessment for classifying financial assets. That paper discusses when financial assets would be measured at fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL) as a result of the business model assessment─including whether FVOCI or FVPL should be ‘residual’. Consistent with the boards’ discussion in April 2012 (and the figure in paragraph 4 in Agenda Paper 6/FASB Memo 151, which illustrates the scope of the boards’ joint discussions), only financial assets with contractual cash flows that are solely P&I are within the scope of that paper.[1] For the ease of reference, such financial assets are referred to as ‘eligible debt instruments’.

[1] Under IFRS 9, an entity may make an irrevocable election at initial recognition to present fair value gains and losses on an investment in an equity instruments in other comprehensive income. That option is outside of the scope of the papers for this meeting.

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3. The FASB's tentative classification and measurement (C&M) model for financial assets already includes a FVOCI measurement category. However, IFRS 9 *Financial Instruments* does not currently contain a FVOCI measurement category for debt instruments. All financial assets are classified at amortised cost or FVPL. Therefore, before the boards jointly discuss agenda paper IASB AP6B/FASB Memo 152, this paper sets out two issues for the IASB's consideration:

   (a) Whether the IASB should introduce a third measurement category to IFRS 9 such that some eligible debt instruments are measured at FVOCI on the basis of the business model within which they are held; and

   (b) If the IASB decides to introduce the FVOCI measurement category for some eligible debt instruments, whether the Board should apply the same interest income and impairment recognition to assets measured at FVOCI as for financial assets measured at amortised cost and require recycling. (In this paper, the staff refers to this issue as 'the mechanics of the FVOCI measurement category'.)

4. This paper provides relevant background, staff analysis and recommendation and asks the IASB for decisions. All of the questions are set out at the end of the paper.

Whether the IASB should introduce a third measurement category to IFRS 9

5. IASB AP 6B/FASB Memo 152 set out background information on the measurement categories in the FASB's tentative C&M model and IFRS 9, including feedback received subsequent to the publication of IFRS 9 related to the need for a FVOCI measurement category. As described in that paper, many constituents support the current two-measurement category approach in IFRS 9. However, other constituents have highlighted concerns that the measurement categories in IFRS 9 are too limited to allow them to properly reflect their business models particularly in instances where the entity holds some financial assets in a portfolio either to collect contractual cash flows or to sell and realise fair value changes. Those constituents questioned whether FVPL appropriately

reflects this business strategy and expressed the view that a FVOCI measurement category should be introduced.

6. Also insurers have raised concerns about the potential accounting mismatch that may arise due to the interaction between the accounting for financial assets under IFRS 9 and the accounting for insurance liabilities under the Insurance Contracts project (currently being jointly deliberated by the boards).

7. Accordingly, the staff have identified the following considerations for the IASB to assess in making the decision whether a FVOCI measurement category should be introduced in IFRS 9:

   (a) The existence of a third business model where both amortised cost and fair value information are relevant;

   (b) Reducing the key differences between IFRS 9 and the FASB's tentative C&M model; and

   (c) Interaction with the Insurance Contracts project.

8. **The existence of a third business model** – As stated above, IFRS 9 does not contain a FVOCI measurement category for eligible debt instruments and many constituents support this approach. However some constituents have raised a concern that the classification outcomes in IFRS 9 do not allow them to reflect their business models in a meaningful way. This is because in some cases (notably with respect to so called 'liquidity portfolios') the portfolio is 'rebalanced' more than infrequently (ie financial assets are sold and bought to achieve a desired profile of the portfolio or/and to comply with the specified parameters) with the effect that the portfolio as a whole does not qualify for amortised cost under IFRS 9 and thus would be required to be classified and measured at FVPL.[2] However some (or many) financial assets within this portfolio might be held for substantial periods of time for the collection of

[2] Based on the limited feedback received to date, the staff understand that the level of granularity at which such portfolios are managed differs across entities. In other words, some entities manage their portfolios at a more granular level and, based on their initial assessment of IFRS 9, expect to be able to classify financial assets that are held to collect contractual cash flows at amortised cost and classify those assets that are subject to regular 'rebalancing' (ie sales are more than infrequent) at FVPL. Other entities manage their portfolios at a more aggregated level and are unable to stratify them on initial recognition. Therefore, the entire portfolio will be classified at FVPL even though some (or many) financial assets within the portfolio are held for the collection of the contractual cash flows.

contractual cash flows. Some question whether classifying such portfolios in the same way as those that are actively managed to realise fair value changes provides the most relevant information to users of financial statements.

9. The staff believe that both amortised cost and fair value information are relevant for the portfolios of financial assets that are held both for the collection of the contractual cash flows and selling. As discussed in the next section of this paper, a FVOCI category with recycling and recognition of interest income and credit impairment in profit or loss (P&L) would provide this information, ie amortised cost information in P&L and fair value information in the balance sheet.

10. The staff note that in its deliberations leading to the exposure draft preceding IFRS 9 the IASB discussed an alternative approach to classification and measurement whereby financial assets would be measured at amortised cost if they:

    (a) have basic loan features,

    (b) are managed on a contractual yield basis and

    (c) meet the definition of loans and receivables in IAS 39 *Financial Instruments: Recognition and Measurement*.

11. Financial assets that meet the conditions in paragraph 10(a) and (b) but **not** 10(c) (ie they are *not* loans and receivables as defined in IAS 39) would be recognised at fair value with changes in fair value presented as follows:

    (a) Changes in value determined on amortised cost basis (including impairment) would be presented in P&L[3];

    (b) Any difference between amortised cost measure and the fair value change for the period would be presented in other comprehensive income (OCI).

12. There would be no recycling from OCI into P&L and reversals of impairment losses would be recognised in P&L. All other financial assets would be measured at FVPL.

[3] Under that alternative approach proposed in that ED impairment would have been determined using the incurred loss model in IAS 39.

13. The alternative approach was rejected by constituents who noted that splitting fair value gains and losses between P&L and OCI increases complexity and reduces comparability.
14. The staff note however that the FVOCI category proposed in that ED differs from the FVOCI category being considered in this paper and in IASB AP 6B/FASB Memo 152. The approach proposed in the ED contemplated a different measurement attribute solely based on the nature of the instruments. That is, analogising to IFRS 9 terminology, financial assets that have contractual cash flows that are solely P&I and are managed for the collection of contractual cash flows would have been classified differently depending on whether they meet the definition of loans and receivables. Also, because recycling would have been prohibited, the approach in the ED would not have resulted in amortised cost information presented in P&L.
15. In contrast, the FVOCI category discussed in this paper and in IASB AP 6B/FASB Memo 152 would apply to financial assets that are held within portfolios that involve holding assets both for the collection of contractual cash flows and selling (ie either contractual cash flows or sales proceeds will be ultimately realised). The staff believe that for such portfolios two sets of information are relevant and the usefulness of this information outweighs the additional complexity associated with the dual measurement.
16. Moreover, the staff note that the FVOCI category discussed in this paper and in IASB AP 6B/FASB Memo 152 does not involve the same level of complexity as the available-for-sale (AFS) category for debt instruments in IAS 39. This is because, unlike in IAS 39, the staff proposes in this paper that financial assets measured at FVOCI will be subject to the same impairment model as financial assets measured at amortised cost. In addition, unlike under IAS 39, there would be a clear rationale for *when* this category should apply that is linked to the usefulness of information provided. This is consistent with the overall approach in IFRS 9 whereby the classification of financial assets (that contain cash flows that are solely P&I) is determined based on the business model with the objective of providing useful information.
17. **Reducing the key differences with the FASB's model** – The staff note that one of the objectives of the IASB's decision to consider limited modifications to IFRS

9 is to seek to reduce key differences with the FASB's tentative C&M model. Since 2005, the boards have had a long-term objective to achieve increased international comparability in accounting for financial instruments. Both boards have received consistent feedback from constituents reinforcing the importance of this objective. This was also confirmed by the IASB's recent agenda consultation.

18. The FASB's model identifies three rather than two business models and, accordingly, contains a FVOCI category for eligible debt instruments. When the C&M phase of IFRS 9 was originally deliberated, the FASB had not yet determined its C&M model for financial assets. This factor is therefore a new consideration for the IASB in determining the appropriate business models for eligible debt instruments.

19. **Interaction with the Insurance Contracts project** – As described in paragraph 6 of this paper and in IASB AP 6B/FASB Memo 152, insurers have raised a concern in response to the Insurance Contracts exposure draft about the potential accounting mismatch that may arise in P&L due to the interaction between accounting for financial assets under IFRS 9 and accounting for insurance liabilities under that ED. Some respondents indicated that a potential way to reduce the accounting mismatch would be to introduce FVOCI for financial assets in conjunction with recognising the effects of changes in the interest rate associated with the insurance liabilities in OCI. The staff acknowledge these concerns and believe that introduction of FVOCI category for eligible debt instruments in conjunction with recognising the effect of changes in the interest rate associated with insurance liabilities in OCI may help to *reduce* this accounting mismatch. However the staff note that this will not completely *eliminate* the accounting mismatch because not all the financial assets backing insurance liabilities would be measured at FVOCI. The interaction between the potential FVOCI category for eligible debt instruments and the recognition of effect of changes in the interest rates associated with insurance liabilities in OCI is explored in IASB AP 14B.

Staff recommendation

20. Consistent with the rationale presented in paragraphs 8-19, the staff recommend that the IASB introduce a FVOCI category for eligible debt instruments to IFRS

9. However, the staff believes the rationale for this recommendation is stronger if the IASB also agrees with the recommendation in the next section of the paper to apply the same interest income and impairment recognition to assets measured at FVOCI as for financial assets measured at amortised cost and require recycling (ie present amortised cost information in P&L). The relevant question for the IASB is at the end of this paper.

21. This recommendation does not address how the FVOCI measurement category should be articulated, ie which eligible debt instruments would qualify to be measured at FVOCI. That issue is set out in IASB AP 6B/FASB Memo 152 and will be discussed jointly by the boards if the IASB decides to proceed with this measurement category.

Mechanics of the FVOCI measurement category

22. IASB AP 6B/FASB Memo 152 discusses when financial assets would be measured at FVOCI or FVPL as a result of the business model assessment. As noted earlier in this paper, only debt instruments with contractual cash flows that are solely payments of principal and interest are in the scope of that discussion.

23. Paragraph 9 of this paper notes that for some eligible debt instruments two sets of information – amortised cost in P&L and fair value on the statement of financial position – are relevant. This information is provided if:

    (a) The financial asset is recognised at fair value on the balance sheet;

    (b) Interest income is recognised in P&L using the effective interest rate method that is applied to financial assets measured at amortised cost;

    (c) Impairment losses/reversals are recognised in P&L using the same impairment methodology as for financial assets carried at amortised cost; **and**

    (d) Fair value gains and losses are recognised in OCI over the life of the financial asset and the cumulative fair value gain or loss is reclassified to P&L (ie recycled) when the financial asset is derecognised.

    Refer to Appendix A of this paper for an illustration of the mechanics.

24. As noted above, the FASB's tentative C&M model for financial assets already includes a FVOCI measurement category. Under the FASB's model, interest income recognition is the same for financial assets measured at amortised cost and those measured at FVOCI. The FASB's model requires current period credit impairments to be recognised in P&L and also requires recycling of the changes in fair value accumulated in OCI to P&L when the financial assets measured at FVOCI are derecognised.

25. **If** the IASB decides to introduce the FVOCI measurement category for debt instruments (the first issue discussed in this paper), this section considers whether it should apply the same interest income and impairment recognition for assets measured at FVOCI as for financial assets measured at amortised cost and require recycling.

26. The staff note that the IASB has not developed an overall principle for the use of OCI, including when an item should be recognised in OCI instead of P&L and whether the amounts recognised in OCI should be recycled to P&L (and, if so, when). Development of such an overall principle is outside the scope of limited modifications to IFRS 9. Accordingly, this paper focuses on the mechanics of the FVOCI measurement for debt instruments, including recycling, in the context of accounting for financial instruments under IFRS 9.

Background

IAS 39

27. IAS 39 requires some gains and losses on an AFS financial asset to be recognised in OCI until the asset is derecognised. At that time the cumulative gain or loss previously recognised in OCI is recycled to P&L. Also, IAS 39 requires a holder of an AFS financial asset to assess the asset for impairment and, if it is impaired, the cumulative loss that had been recognised in OCI (including the full effect of fair value movements) is recycled from OCI to P&L. The impairment requirements for AFS debt investments and AFS equity investments under IAS 39 are different. Moreover, the impairment methodology for AFS debt investments is different to the impairment methodology that is applied to financial assets measured at amortised cost. The complexity and diversity of these impairment

requirements were some of the main concerns raised about IAS 39 during the financial crisis.

28. Interest on an AFS debt instrument (calculated using the effective interest rate method) and dividends on an AFS equity instrument are recognised in P&L.

29. IAS 39 also requires recognition in OCI of fair value gains and losses on a hedging instrument designated in a qualifying cash flow hedge relationship. The fair value gains and losses recognised in OCI are subsequently reclassified out of OCI in accordance with the cash flow hedge accounting requirements in IAS 39.

IFRS 9

30. IFRS 9 requires recognition of fair value gains and losses in OCI in the following circumstances:

    (a) Equity investments that are designated at FVOCI on initial recognition—In this case, the entire fair value change is recognised in OCI.

    (b) Financial liabilities that are designated under the fair value option—In this case, the portion of the fair value change that is attributable to changes in the credit risk of that liability is recognised in OCI (unless such treatment would create or enlarge a mismatch in P&L).

    IFRS 9 prohibits recycling in both of these cases.

31. **Equity investments designated at FVOCI** – The IASB initially decided that all equity investments should be measured at FVTPL. However, in response to feedback, the IASB ultimately introduced the FVOCI election with the intention that it would be used for 'strategic' equity investments, ie those equity investments that are held for non-contractual benefits rather than primarily for increases in fair value or dividends. However the Board found it difficult (and perhaps impossible) to define such strategic equity investments and instead permitted an irrevocable FVOCI option on initial recognition for all equity investments other than those that are held for trading. Yet, consistent with the underlying rationale for providing the election, the Board concluded that recycling the cumulative fair value gain or loss from OCI to P&L upon disposal of these investments would not be appropriate. The Board believed that prohibiting

recycling would limit the use of this election in practice to circumstances where equity investments are indeed held primarily for non-contractual benefits rather than increases in fair value. Moreover, the Board concluded that a gain or loss on equity investments designated at FVOCI should be recognised once only; therefore recognising a gain or loss in OCI and subsequently transferring it to P&L would be inappropriate.

32. Besides, the Board noted that requiring recycling – ie recognition of the *realised* cumulative fair value gain or loss in P&L (rather than keeping that accumulated balance in equity) – would create the need to assess these equity instruments for impairment and to recognise any impairment losses in P&L. This is because an impairment loss is *"realised"*, and hence should affect P&L, when it arises rather than when the instrument is ultimately derecognised. Also, the view was taken that it would be inappropriate to defer (or perhaps even avoid) the recognition of losses until an equity investment was derecognised. The assessment of AFS equity investments for impairment under IAS 39 had given rise to significant application issues.

33. Consequently, the Board decided to prohibit recycling the cumulative fair value gain or loss for equity investments designated at FVOCI. However, if an entity derecognises equity investments measured at FVOCI, IFRS 7 requires particular disclosures, including disclosure of the cumulative fair value gain or loss on derecognition. In addition, entities are permitted to transfer the amounts recognised in OCI to retained earnings and thus can reflect the realisation of gains or losses in this way.

34. **Changes in a liability's credit risk (own credit risk)** – Users and others told the IASB over a long period of time that changes in a liability's credit risk ought not to affect P&L unless the liability is held for trading. That is because an entity generally will not realise the effects of changes in the liability's credit risk unless the liability is held for trading. To address this concern, the IASB decided to

require an issuer to recognise in OCI the effects of changes in the credit risk of its financial liabilities designated under the fair value option[4].

35. In the absence of an overall principle for the use of OCI, the IASB decided to be consistent with its decision on equity investments measured at FVOCI and prohibit the recycling of the changes in own credit risk from OCI to P&L. However, the IASB noted that for many financial liabilities, the issue of recycling is irrelevant because the instruments are often held to maturity (and the contractual amounts are repaid) in which case the cumulative effect of changes in own credit risk will net to zero by the maturity date. Consistent with the disclosure requirements for equity investments designated at FVOCI, IFRS 7 requires disclosure of any amount presented in OCI that was realised during the reporting period. In addition, entities are permitted to transfer the amounts recognised in OCI to retained earnings and thus can reflect the realisation of gains or losses in this way.

Impairment and hedge accounting projects

36. **Impairment** – The IASB and the FASB are currently developing a credit deterioration impairment model[5]. For the IASB, this model would apply to all financial assets measured at amortised cost including debt investments and loans[6]. The FASB will discuss at a future FASB-only meeting whether one impairment model should apply to all financial assets in the same way.

37. **Interest income** – The IASB and the FASB have tentatively decided that interest income on financial assets measured at amortised cost would be recognised in P&L using the effective interest method[7] by applying the effective interest rate to

[4] Unless such recognition would create or enlarge an accounting mismatch, in which case the effects of changes in the credit risk of the entity's financial liabilities would be recognised in P&L.

[5] See IASB AP5 for a summary of tentative decisions on the impairment project.

[6] In December 2011 the IASB decided against an assessment for debt investments measured at amortised cost that would result in recognising lifetime expected losses using a bright line (eg when the fair value of a debt investment is less than a specified percentage of the amortised cost basis for some specified time period). Instead, a decline in fair value would be one of the indicators that an entity would have to consider when assessing deterioration in credit quality.

[7] In IFRSs, the effective interest method is currently described in IAS 39.

the 'gross' amortised cost balance (ie the balance that has not been reduced by the allowance for credit impairment)[8].

38. **Hedge accounting** – The Board's tentative general hedge accounting model would require recognising fair value gains and losses in OCI in the following circumstances:

    (a) Fair value gains and losses on a hedging instrument in a qualifying fair value hedge of an equity investment designated at FVOCI. Consistent with the non-recycling of fair value gains and losses on such equity investments, fair value gains and losses on the hedging instrument would not be recycled.

    (b) Fair value gains and losses on a hedging instrument in a qualifying cash flow hedge relationship. The cumulative fair value gain or loss will be reclassified out of OCI in accordance with the requirements of the hedge accounting model.

    (c) A change in value of a forecasted transaction in a cash flow hedge of a net position is deferred in OCI and recognised in P&L when the transactions within the net position affect P&L.

Staff analysis and recommendation

39. The staff note that a key consideration of the FVOCI measurement category (as noted in paragraph 9) is the need for two sets of information for some debt instruments, ie amortised cost in P&L and fair value on the statement of financial position. Accordingly, the staff believe that if the IASB decides to introduce the FVOCI measurement category in IFRS 9, this category should provide these two sets of information. Therefore, the staff recommend the following requirements for debt instruments measured at FVOCI:

    (a) Interest income should be recognised in P&L using the effective interest method that is applied to financial assets measured at amortised cost;

[8] See IASB AP 4A from the April 2011 meeting.

(b) Credit impairment losses/reversals should be recognised in P&L using the same impairment methodology as for financial assets measured at amortised cost; and

(c) The cumulative fair value gain or loss should be recycled from OCI to P&L when the financial asset is derecognised.

40. The staff recommendation is consistent with the FASB's tentative decisions on the mechanics of the FVOCI measurement category for debt investments and therefore would result in greater alignment between IFRS 9 and the FASB's model[9].

41. Moreover, users have consistently told the IASB that amounts recognised in OCI should be recycled to P&L when the amounts are crystallised by the sale of a financial instrument (ie the cumulative fair value gain or loss has been realised in the form of cash)[10]. The staff note that IAS 1 *Presentation of Financial Statements* addresses the presentation of reclassification adjustments (ie recycled amounts) required by other IFRSs (see paragraphs 92-94 of IAS 1). In accordance with IAS 1, an entity would be required to present the amount recycled from OCI to P&L and may do so in the statement of comprehensive income or in the notes, which will provide transparency about recycled amounts.

42. The staff acknowledge that recycling of the cumulative fair value gain or loss for debt instruments measured at FVOCI would be inconsistent with the non-recycling of the cumulative fair value gain or loss for equity investments designated at FVOCI and the changes in own credit risk recognised in OCI. However, the staff believe that the IASB's previous conclusions were made in the context of those specific financial instruments and **a different set of**

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[9] However, as noted above in paragraph 36, the staff acknowledge that while the boards would have greater alignment in that they would both have a FVOCI measurement category that includes recycling and recognition of credit impairment in P&L, the FASB has yet to deliberate in the impairment project whether the same credit deterioration impairment model should apply to all financial assets in the same way. Depending on the outcome of that discussion, the boards may calculate credit impairments for some financial assets differently, which could result in the boards having different P&L profiles for at least some financial assets.

[10] This feedback was received in the financial instruments project and the project on OCI (see AP 1A from 24 September 2010, AP 6 from 15-16 October 2009, AP 14 from December 2006 and AP 6 from 17-18 November 2010).

considerations apply to debt instruments measured at FVOCI. As stated above, consistent with the objective of the FVOCI measurement category, the staff think that two sets of information should be presented in the financial statements (ie amortised cost in P&L and fair value on the statement of financial position). Moreover requiring recycling for debt instruments measured at FVOCI is consistent with the FASB's tentative decision for such debt instruments and thus would result in greater alignment between the boards' models.

43. These considerations are different to those considerations that the IASB discussed for equity investments designated at FVOCI and financial liabilities designated under the fair value option. For example, as noted earlier in this paper, the issue of recycling is irrelevant for many financial liabilities designated under the fair value option because liabilities are typically held to repay contractual amounts and thus the cumulative effect of changes in own credit risk naturally unwinds to zero at maturity. In contrast, debt instruments measured at FVOCI would often be bought and sold and therefore the fair value gains and losses recognised in OCI will not naturally unwind. As noted above, users have consistently told the IASB that realised (crystallised) amounts should be recognised in P&L. Accordingly, in the staff's view, absent a broader debate on a general principle for OCI, staff believe that a consistent approach to recycling in IFRS 9 is not necessary and in fact would not provide the most useful information.

44. Finally, some have expressed concerns that the cumulative fair value gain or loss should not be recognised in P&L when the financial asset is derecognised because that cumulative amount likely does not reflect the asset's performance for only that period. However, the staff note that the cumulative fair value gain or loss is realised in the form of cash when the financial asset is derecognised and, consistent with the feedback from users, the staff believe that recognising that amount in P&L provides relevant information.

Question 1 for the IASB: Introducing a third measurement category

Does the IASB agree with the staff recommendation in paragraph 20 to incorporate in IFRS 9 a FVOCI measurement category for eligible debt instruments?

Questions 2–4 for the IASB: Mechanics of the FVOCI measurement category

Question 2:

If the FVOCI measurement category is introduced for some debt investments in IFRS 9, does the IASB agree with the staff recommendation in paragraph 39 that interest income on such instruments should be recognised in P&L using the effective interest method that is applied to financial assets measured at amortised cost?

Question 3:

If the FVOCI measurement category is introduced for some debt investments in IFRS 9, does the Board agree with the staff recommendation in paragraph 39 that credit impairment losses/reversals on such instruments should be recognised in P&L using the same credit impairment methodology as for financial assets measured at amortised cost?

Question 4:

If the FVOCI measurement category is introduced for some debt investments in IFRS 9, does the Board agree with the staff recommendation in paragraph 39 that the cumulative fair value gain or loss recognised in OCI should be recycled from OCI to P&L when these financial assets are derecognised?

Appendix A – Illustration of the mechanics of the FVOCI measurement category[11]

A1. A financial asset is purchased at its face value of CU 1,000 on 1/1/X1. Its contractual term is 10 years and the coupon is 5%. Expected losses are CU 20. The journal entries on 1/1/X1 for this asset assuming either FVOCI or amortised cost classification (as determined by the holder's business model) would be as follows:

FVOCI measurement				Amortised cost (AC) measurement			P&L effect FVOCI	P&L effect AC
Financial asset	1000			Financial asset[12]	980		-20	-20
Cash		1000		Impairment loss (P&L)	20			
Impairment loss (P&L)	20			Cash		1000		
OCI		20						

A2. On 12/31/X1, the fair value has decreased to CU 950 as a result of changes in market interest rates and increased loss expectations. Expected losses have increased by CU 10 (from CU20 to CU 30). A coupon payment is received.

FVOCI measurement				Amortised cost measurement			P&L effect FVOCI	P&L effect AC
Cash	50			Cash	50		40	40
Interest income		50		Interest income		50		
Impairment loss (P&L)	10			Impairment loss (P&L)	10			
OCI	40			Financial asset		10		
Financial asset		50						
Financial asset's carrying value:	950			Financial asset's carrying value:	970			

[11] Where applicable, this example reflects the tentative decisions made by the Board in the Impairment project.

[12] All journal entries to the financial asset at amortised cost show the net carrying value on the Balance Sheet.

A3. On 1/1/X2, the entity sells the financial asset for CU 950. The journal entries **with and without** the effects of recycling are as follows:

FVOCI measurement WITH recycling			Amortised cost measurement			P&L effect FVOCI	P&L effect AC
Cash	950		Cash	950		-20	-20
Financial asset		950	Loss on sale (P&L)	20			
Loss on sale (P&L)	20		Financial asset		970		
OCI		20					

FVOCI measurement WITHOUT recycling			Amortised cost measurement			P&L effect FVOCI	P&L effect AC
Cash	950		Cash	950		0	-20
Financial asset		950	Loss on sale (P&L)	20			
			Financial asset		970		