STAFF PAPER

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Project	**Transition Resource Group for Impairment of Financial Instruments**
Paper topic	Expected credit losses—measurement date

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Introduction

1. This paper addresses two questions raised by a submitter regarding whether there is a requirement to measure Expected Credit Losses ('ECL') at dates other than the reporting date. In this paper, the staff:

   (a) set out the accounting requirements in IFRS 9 *Financial Instruments* (2014) that is pertinent to this issue along with other relevant requirements contained within IAS 1 *Presentation of Financial Statement*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IFRS 7 *Financial Instruments: Disclosures;* and

   (b) ask the members of the Transition Resource Group for Impairment of Financial Instruments ('ITG') for their views on the questions raised.

Background

2. The submitter notes that Chapter 5.5 of IFRS 9 consistently refers to the requirement for an entity to measure ECL at the reporting date. However, the submitter also notes that other sections of IFRS 9 (including the Illustrative Examples) and related requirements in other IFRSs imply that there is a requirement to measure ECL at dates other than the reporting date, namely:

    (a) at the date of derecognition; and

    (b) at the date of initial recognition

3. The submitter asks whether the requirements in other areas of IFRS 9 and other IFRSs represent a conflict with the requirements of Chapter 5.5 of IFRS 9, which could lead to diversity in practice.

4. In particular, the submitter considers that such diversity is possible where particular information is contained only within an Illustrative Example, because such examples do not contain requirements for financial statements in accordance with paragraph 9 of IAS 8 (ie they accompany, but are not part of, IFRSs). Consequently, some entities may conclude that they should consider only the mandatory requirements of IFRSs, whereas other entities may take account of the Illustrative Examples.

Accounting requirements

5. Chapter 5.5 of IFRS 9 sets out the requirements relating to impairment. Paragraphs 5.5.3 and 5.5.5 of IFRS 9 require an entity to measure ECL at the reporting date:

    > Subject to paragraphs 5.5.13–5.5.16, at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

> Subject to paragraphs 5.5.13–5.5.16, if, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

6. Paragraph 3.2.12 of IFRS 9 also provides specific requirements on how to calculate the gain or loss upon derecognition of a financial asset:

> On derecognition of a financial asset in its entirety, the difference between:
>
> > (a) the carrying amount (measured at the date of derecognition) and
> >
> > (b) the consideration received (including any new asset obtained less any new liability assumed)
>
> shall be recognised in profit or loss.

7. IFRS 9 does not define 'carrying amount', but does define the *gross carrying amount* as the amortised cost of a financial asset, before adjusting for any loss allowance. *Amortised cost* is further defined as:

> The amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

8. Consequently, the 'carrying amount' referred to under paragraph 3.2.12(a) of IFRS 9 in respect of a financial asset measured at amortised cost will be the amortised cost of that financial asset measured at the date of derecognition. Because the definition of amortised cost includes an adjustment for any loss allowance, an entity would be required to re-measure the ECL at that date.

9. This would apply to both financial assets measured at amortised cost in accordance with paragraph 4.1.2 of IFRS 9 and also financial assets measured at fair value through other comprehensive income ('FVOCI') under paragraph

4.1.2A of IFRS 9. This is because, as noted by paragraphs 5.7.11 and B5.7.1A of IFRS 9, the FVOCI measurement category recognises information in profit or loss as if the financial asset were measured at amortised cost:

> As described in paragraph 5.7.10, if a financial asset is measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A, the amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if the financial asset had been measured at amortised cost.
>
> …When these financial assets are derecognised, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss. This reflects the gain or loss that would have been recognised in profit or loss upon derecognition if the financial asset had been measured at amortised cost.

10. Paragraphs B5.7.2 and B5.7.2A of IFRS 9 also cross-refer to the requirements of IAS 21:

> An entity applies IAS 21 to financial assets and financial liabilities that are monetary items in accordance with IAS 21 and denominated in a foreign currency. IAS 21 requires any foreign exchange gains and losses on monetary assets and monetary liabilities to be recognised in profit or loss. An exception is a monetary item that is designated as a hedging instrument in a cash flow hedge (see paragraph 6.5.11), a hedge of a net investment (see paragraph 6.5.13) or a fair value hedge of an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5 (see paragraph 6.5.8).
>
> For the purpose of recognising foreign exchange gains and losses under IAS 21, a financial asset measured at fair

> value through other comprehensive income in accordance with paragraph 4.1.2A is treated as a monetary item. Accordingly, such a financial asset is treated as an asset measured at amortised cost in the foreign currency. Exchange differences on the amortised cost are recognised in profit or loss and other changes in the carrying amount are recognised in accordance with paragraph 5.7.10.

11. Illustrative Example 14 of IFRS 9 is a comprehensive example that deals with a number of areas, including the interaction between foreign currency denomination and impairment.

12. Paragraph IE88 of Illustrative Example 14 presents the accounting entries required upon initial recognition of a foreign currency-denominated asset measured at FVOCI and shows that the ECL allowance is measured at initial recognition. The rationale for this is further explained in paragraph IE90 of Illustrative Example 14, which states:

> The bond is a monetary asset. Consequently, the entity recognises the changes arising from movements in foreign exchange rates in profit or loss in accordance with paragraphs 23(a) and 28 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* and recognises other changes in accordance with IFRS 9. For the purposes of applying paragraph 28 of IAS 21 the asset is treated as an asset measured at amortised cost in the foreign currency.

13. Paragraph IE88 of Illustrative Example 14 also includes an additional reference; footnote (a), which points out that in the case of a financial asset denominated in the functional currency of the entity, the accounting entry to record the ECL allowance would normally be made at the reporting date.

14. Illustrative Example 14 is reproduced in its entirety in Appendix I.

15. In accordance with paragraphs 7 and 8 of IAS 8, an entity is obliged to consider all IFRSs relevant to a transaction insofar as the effect is considered material.

> When an IFRS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the IFRS.
>
> IFRSs set out accounting policies that the IASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from IFRSs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

16. Paragraphs 82(aa) and 82(ba) of IAS 1 require that separate line items are presented for gains and losses arising from derecognition and impairment losses and reversals.

> In addition to items required by other IFRSs, the profit or loss section or the statement of profit or loss shall include line items that present the following amounts for the period:
>
> …
>
> (aa) gains and losses arising from the derecognition of financial assets measured at amortised cost;
>
> …
>
> (ba) impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 5.5 of IFRS 9;

17. IAS 21 (which is cross-referenced in paragraphs B5.7.2 and B5.7.2A of IFRS 9) also contain requirements regarding the appropriate disclosure of foreign currency gains and losses. Paragraphs 23, 28 and 52 of IAS 21 state:

> At the end of each reporting period:
>
> (a) foreign currency monetary items shall be translated using the closing rate;
>
> …

> Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in profit or loss in the period in which they arise, except as described in paragraph 32.
>
> An entity shall disclose:
>
> (a) the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with IFRS 9;
>
> …

18. Paragraphs 35H-35I of IFRS 7 set out the disclosure requirements required to explain changes in the loss allowance and the reasons behind those changes.

> To explain the changes in the loss allowance and the reasons for those changes, an entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for:
>
> (a) the loss allowance measured at an amount equal to 12-month expected credit losses;
>
> (b) the loss allowance measured at an amount equal to lifetime expected credit losses for:
>
> > (i) financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;

(ii) financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and

(iii) trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with paragraph 5.5.15 of IFRS 9.

(c) financial assets that are purchased or originated credit-impaired. In addition to the reconciliation, an entity shall disclose the total amount of undiscounted expected credit losses at initial recognition on financial assets initially recognised during the reporting period.

To enable users of financial statements to understand the changes in the loss allowance disclosed in accordance with paragraph 35H, an entity shall provide an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in the loss allowance. The information shall be provided separately for financial instruments that represent the loss allowance as listed in paragraph 35H(a)–(c) and shall include relevant qualitative and quantitative information. Examples of changes in the gross carrying amount of financial instruments that contributed to the changes in the loss allowance may include:

(a) changes because of financial instruments originated or acquired during the reporting period;

(b) the modification of contractual cash flows on financial assets that do not result in a derecognition of those financial assets in accordance with IFRS 9;

(c) changes because of financial instruments that were derecognised (including those that were written-off) during the reporting period; and

(d) changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses.

19. In order to meet the requirements above, an entity should be mindful of the objective of credit risk disclosures explained in paragraph 35B of IFRS 7—ie to enable users of financial statements to understand the effect of credit risk on the amount timing and uncertainly of future cash flows.

20. Paragraph IG20B of the guidance on implementing IFRS 7 illustrates one way of how the information required by paragraphs 35H-35I of IFRS 7 could be provided. In this example, changes in models/risk parameters and foreign exchange movements are separately identified from changes arising from new financial assets. It is assumed in this case that the entity has concluded that such separate disclosure is necessary in order to meet the overall objective of credit risk disclosures. However, an entity in different circumstances may reasonably conclude otherwise.

21. Paragraph IG20B of IFRS 7 Illustrative Guidance is reproduced in Appendix II.

Question 1—Is there a requirement to measure ECL on a financial asset at the date of derecognition?

22. Chapter 5 of IFRS 9 deals with both the initial and subsequent measurement of financial assets and financial liabilities. This includes requirements relating to impairment of financial assets set out in Chapter 5.5, which requires an entity to measure ECL on financial assets at the reporting date.

23. However, where a financial asset has been derecognised between two reporting dates, it will be removed from the statement of financial position and so, the subsequent measurement requirements referred to above will no longer apply to that financial asset.

24. Instead, an entity would be required to consider Chapter 3.2 of IFRS 9, which deals with derecognition of financial assets, including the specific requirements relating to how gains or losses are calculated upon derecognition.

25. Paragraph 3.2.12 of IFRS 9 requires that the gain or loss must be calculated by comparing the carrying amount at the date of derecognition to the consideration received (including any new assets received less any new liabilities assumed).

26. Consequently, for financial assets measured at amortised cost, an entity would be required to calculate the ECL as at that date in order to calculate the appropriate gain or loss upon derecognition in accordance with paragraph 3.2.12 of IFRS 9.

27. This requirement would also be relevant for financial assets measured at FVOCI, because paragraph B5.7.1A of IFRS 9 clarifies that this measurement category recognises information in profit or loss as if the financial asset were measured at amortised cost.

28. The staff observe that this would not appear to represent a conflict within IFRS 9. In this case, the more specific derecognition requirements contained within Chapter 3.2 of IFRS 9 will apply at the date of derecognition.

29. Furthermore, in accordance with paragraphs 7-8 of IAS 8, an entity is also expected to comply with the requirements of other IFRSs insofar as the effect of application is material. In this regard, consideration should be given to paragraph 82 (aa) and (ba) of IAS 1.

30. The staff note that in accordance with paragraph 8 of IAS 8, an entity would consider the materiality of the items in question when applying the requirements above.

Question 2—Is there a requirement to measure ECL on a financial asset at the date of initial recognition?

31. As noted above, Chapter 5.5 of IFRS 9 sets out the requirements relating to impairment and requires an entity to measure ECL on financial assets at the reporting date.

32. However, paragraphs B5.7.2 and B5.7.2A of IFRS 9 specifies that an entity must apply IAS 21 to financial assets that are monetary items and requires any foreign exchange gains and losses on such items to be recognised in profit or loss.

33. Illustrative Example 14 (specifically paragraphs IE88 and IE90) of IFRS 9 illustrates the interaction of these two areas by setting out the appropriate

accounting entries which would be required in respect of a foreign currency-denominated bond at initial recognition. Consequently, the entity measures the ECL allowance at initial recognition in order to appropriately capture foreign exchange gains and losses on the financial asset going forward.

34. The staff note that, rather than representing a conflict, these are two separate requirements of IFRS 9, both integral parts of the Standard, which the entity is required to comply with. Illustrative Example 14 of IFRS 9 aims to illustrate how an entity might do this in practice.

35. In accordance with paragraphs 7-8 of IAS 8, an entity is also expected to comply with the requirements of other IFRSs insofar as the effect of application is material. In this regard, an entity would need to consider:

    (a) paragraphs 23(a) and 28 of IAS 21, which require an entity to recognise foreign exchange gains and losses on monetary items in profit or loss and paragraph 52 of IAS 21, which states that foreign currency gains and losses on monetary assets recognised in P&L must be disclosed;

    (b) paragraph 82(ba) of IAS 1, which requires the separate presentation of impairment losses (and reversals) in the statement of profit and loss; and

    (c) paragraphs 35H–35I of IFRS 7, which require an entity to explain changes in the loss allowance in a way that meets the objective of credit risk disclosures set out in paragraph 35B of IFRS 7.

36. Consequently, in order to comply with the requirements above, an entity may be required to measure ECL at initial recognition in respect of foreign currency-denominated assets.

37. The staff point out that a similar requirement may also exist for financial assets denominated in the functional currency of the entity. For example, if an entity considers that changes in the loss allowance attributable to changes in model/risk parameters are sufficiently significant, it may conclude that the separate identification of this change would be necessary in order to meet the objective of credit risk disclosures and comply with the requirements of paragraphs 35H–35I of IFRS 7.

38. Again, the staff note that in accordance with paragraph 8 of IAS 8, an entity would consider the materiality of the items in question when applying the relevant requirements above.

Questions for the members of ITG
What are your views on the issues presented above?

Appendix I

A1. IFRS 9 Implementation Guidance

Example 14—interaction between the fair value through other comprehensive income measurement category and foreign currency denomination, fair value hedge accounting and impairment

IE82 This example illustrates the accounting relating to a debt instrument denominated in a foreign currency, measured at fair value through other comprehensive income and designated in a fair value hedge accounting relationship. The example illustrates the interaction with accounting for impairment.

IE83 An entity purchases a debt instrument (a bond) denominated in a foreign currency (FC) for its fair value of FC100,000 on 1 January 20X0 and classifies the bond as measured at fair value through other comprehensive income. The bond has five years remaining to maturity and a fixed coupon of 5 per cent over its contractual life on the contractual par amount of FC100,000. On initial recognition the bond has a 5 per cent effective interest rate. The entity's functional currency is its local currency (LC). The exchange rate is FC1 to LC1 on 1 January 20X0. At initial recognition the entity determines that the bond is not purchased or originated credit-impaired. In addition, as at 1 January 20X0 the 12-month expected credit losses are determined to be FC1,200. Its amortised cost in FC as at 1 January 20X0 is equal to its gross carrying amount of FC100,000 less the 12-month expected credit losses (FC100,000—FC1,200).

IE84 The entity has the following risk exposures:

(a) fair value interest rate risk in FC: the exposure that arises as a result of purchasing a fixed interest rate instrument; and

(b) foreign exchange risk: the exposure to changes in foreign exchange rates measured in LC.

IE85 The entity hedges its risk exposures using the following risk management strategy:

(a) for fixed interest rate risk (in FC) the entity decides to link its interest receipts in FC to current variable interest rates in FC. Consequently, the entity uses interest rate swaps denominated in FC under which it pays fixed interest and receives variable interest in FC; and

(b) for foreign exchange risk the entity decides not to hedge against any variability in LC arising from changes in foreign exchange rates.

IE86 The entity designates the following hedge relationship:[1] a fair value hedge of the bond in FC as the hedged item with changes in benchmark interest rate risk in FC as the hedged risk. The entity enters into an on-market swap that pays fixed and receives variable interest on the same day and designates the swap as the hedging instrument. The tenor of the swap matches that of the hedged item (ie five years).

IE87 For simplicity, in this example it is assumed that no hedge ineffectiveness arises in the hedge accounting relationship. This is because of the assumptions made in order to better focus on illustrating the accounting mechanics in a situation that entails measurement at fair value through other comprehensive income of a foreign currency financial instrument that is designated in a fair value hedge relationship, and also to focus on the recognition of impairment gains or losses on such an instrument.

1 The cumulative loss in other comprehensive income at the reporting date was CU20. That amount consists of the total fair value change of CU50 (ie CU1,000 – CU950) offset by the change in the accumulated impairment amount representing 12-month expected credit losses that was recognised (CU30).This example assumes that all qualifying criteria for hedge accounting are met (see paragraph 6.4.1 of IFRS 9). The following description of the designation is solely for the purpose of understanding this example (ie it is not an example of the complete formal documentation required in accordance with paragraph 6.4.1 of IFRS 9).

IE88 The entity makes the following journal entries to recognise the bond and the swap on 1 January 20X0:

	Debit LC	**Credit LC**
Financial asset—FVOCI	100,000	
Cash		100,000
(To recognise the bond at its fair value)		
Impairment loss (profit or loss)	1,200	
Other comprehensive income		1,200
(To recognise the 12-month expected credit losses)[(a)]		
Swap	–	
Cash		–
(To recognise the swap at its fair value)		
(a) In case of items measured in the functional currency of an entity the journal entry recognising expected credit losses will usually be made at the reporting date.		

IE89 As of 31 December 20X0 (the reporting date), the fair value of the bond decreased from FC100,000 to FC96,370 because of an increase in market interest rates. The fair value of the swap increased to FC1,837. In addition, as at 31 December 20X0 the entity determines that there has been no change to the credit risk on the bond since initial recognition and continues to carry a loss allowance for 12-month expected credit losses at FC1,200.[2] As at 31 December 20X0, the exchange rate is FC1 to LC1.4. This is reflected in the following table:

2 For the purposes of simplicity the example ignores the impact of discounting when computing expected credit losses.

	1 January 20X0	31 December 20X0
Bond		
Fair value (FC)	100,000	96,370
Fair value (LC)	100,000	134,918
Amortised cost (FC)	98,800	98,800
Amortised cost (LC)	98,800	138,320
Interest rate swap		
Interest rate swap (FC)	–	1,837
Interest rate swap (LC)	–	2,572
Impairment – loss allowance		
Loss allowance (FC)	1,200	1,200
Loss allowance (LC)	1,200	1,680
FX rate (FC:LC)	1:1	1:1.4

IE90 The bond is a monetary asset. Consequently, the entity recognises the changes arising from movements in foreign exchange rates in profit or loss in accordance with paragraphs 23(a) and 28 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* and recognises other changes in accordance with IFRS 9. For the purposes of applying paragraph 28 of IAS 21 the asset is treated as an asset measured at amortised cost in the foreign currency.

IE91 As shown in the table, on 31 December 20X0 the fair value of the bond is LC134,918 (FC96,370 × 1.4) and its amortised cost is LC138,320 (FC(100,000–1,200) × 1.4).

IE92 The gain recognised in profit or loss that is due to the changes in foreign exchange rates is LC39,520 (LC138,320 – LC98,800), ie the change in the amortised cost of the bond during 20X0 in LC. The change in the fair value of the bond in LC, which amounts to LC34,918, is recognised as an adjustment to the carrying amount. The difference between the fair value of the bond and its amortised cost in LC is LC3,402 (LC134,918 – LC138,320). However, the change in the cumulative gain or loss recognised in other comprehensive income during 20X0 as a reduction is LC 4,602 (LC3,402 + LC1,200).

IE93 A gain of LC2,572 (FC1,837 × 1.4) on the swap is recognised in profit or loss and, because it is assumed that there is no hedge ineffectiveness, an equivalent amount is recycled from other comprehensive income in the same period. For simplicity, journal entries for the recognition of interest revenue are not provided. It is assumed that interest accrued is received in the period.

IE94 The entity makes the following journal entries on 31 December 20X0:

	Debit **LC**	**Credit** **LC**
Financial asset—FVOCI	34,918	
Other comprehensive income	4,602	
Profit or loss		39,520
(To recognise the foreign exchange gain on the bond, the adjustment to its carrying amount measured at fair value in LC and the movement in the accumulated impairment amount due to changes in foreign exchange rates)		
Swap	2,572	
Profit or loss		2,572
(To remeasure the swap at fair value)		
Profit or loss	2,572	
Other comprehensive income		2,572
(To recycle the change in fair value of the swap)		

IE95 In accordance with paragraph 16A of IFRS 7, the loss allowance for financial assets measured at fair value through other comprehensive income is not presented separately as a reduction of the carrying amount of the financial asset. However, disclosure would be provided about the accumulated impairment amount recognised in other comprehensive income.

IE96 As at 31 December 20X1 (the reporting date), the fair value of the bond decreased to FC87,114 because of an increase in market interest rates and an increase in the credit risk of the bond. The fair value of the swap increased by FC255 to FC2,092. In addition, as at 31 December 20X1 the entity determines that there has been a significant increase in credit risk on the bond since initial recognition, so a loss allowance at an amount equal to lifetime expected credit losses is recognised.[3] The estimate of lifetime expected credit losses as at 31 December 20X1 is FC9,700. As at 31 December 20X1, the exchange rate is FC1 to LC1.25. This is reflected in the following table:

	31 December 20X0	**31 December 20X1**
Bond		
Fair value (FC)	96,370	87,114
Fair value (LC)	134,918	108,893
Amortised cost (FC)	98,800	90,300
Amortised cost (LC)	138,320	112,875
Interest rate swap		
Interest rate swap (FC)	1,837	2,092
Interest rate swap (LC)	2,572	2,615
Impairment – loss allowance		
Loss allowance (FC)	1,200	9,700
Loss allowance (LC)	1,680	12,125
FX rate (FC:LC)	1:1.4	1:1.25

IE97 As shown in the table, as at 31 December 20X1 the fair value of the bond is LC108,893 (FC87,114 × 1.25) and its amortised cost is LC112,875 (FC(100,000 – 9,700) × 1.25).

IE98 The lifetime expected credit losses on the bond are measured as FC9,700 as of 31 December 20X1. Thus the impairment loss recognised in profit or loss in LC is LC10,625 (FC(9,700 – 1,200) x 1.25).

IE99 The loss recognised in profit or loss because of the changes in foreign exchange rates is LC14,820 (LC112,875 – LC138,320 + LC10,625), which is the change in the gross carrying amount of the bond on the basis of amortised cost during 20X1 in LC, adjusted for the impairment loss. The difference

3 For simplicity this example assumes that credit risk does not dominate the fair value hedge relationship.

between the fair value of the bond and its amortised cost in the functional currency of the entity on 31 December 20X1 is LC3,982 (LC108,893 – LC112,875). However, the change in the cumulative gain or loss recognised in other comprehensive income during 20X1 as a reduction in other comprehensive income is LC11,205 (LC3,982 – LC3,402 + LC10,625).

IE100 A gain of LC43 (LC2,615 – LC2,572) on the swap is recognised in profit or loss and, because it is assumed that there is no hedge ineffectiveness, an equivalent amount is recycled from other comprehensive income in the same period.

IE101 The entity makes the following journal entries on 31 December 20X1:

	Debit **LC**	**Credit** **LC**
Financial asset—FVOCI		26,025
Other comprehensive income	11,205	
Profit or loss	14,820	
(To recognise the foreign exchange gain on the bond, the adjustment to its carrying amount measured at fair value in LC and the movement in the accumulated impairment amount due to changes in foreign exchange rates)		
Swap	43	
Profit or loss		43
(To remeasure the swap at fair value)		
Profit or loss	43	
Other comprehensive income		43
(To recycle the change in fair value of the swap)		
Profit or loss (impairment loss)	10,625	
Other comprehensive income (accumulated impairment amount)		10,625
(To recognise lifetime expected credit losses)		

IE102 On 1 January 20X2, the entity decides to sell the bond for FC 87,114, which is its fair value at that date and also closes out the swap at fair value. The foreign exchange rate is the same as at 31 December 20X1. The journal entries to derecognise the bond and reclassify the gains and losses that have accumulated in other comprehensive income would be as follows:

	Debit LC	Credit LC
Cash	108,893	
Financial asset—FVOCI		108,893
Loss on sale (profit or loss)	1,367[(a)]	
Other comprehensive income		1,367
(To derecognise the bond)		
Swap		2,615
Cash	2,615	
(To close out the swap)		

(a) This amount consists of the changes in fair value of the swap, the accumulated impairment amount and the changes in foreign exchange rates recognised in other comprehensive income (LC2,572 + LC1,200 + LC43 + LC10,625 – LC4,602 – LC11,205 = -LC1,367, which is recycled as a loss in profit or loss).

Appendix II

A2. Illustrating the application of paragraphs 35H and 35I

IG20B The following example illustrates one way of providing information about the changes in the loss allowance and the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance as required by paragraphs 35H–35I. This example does not illustrate the requirements for financial assets that are purchased or originated credit-impaired.

Mortgage loans–loss allowance	**12-month expected credit losses**	**Lifetime expected credit losses (collectively assessed)**	**Lifetime expected credit losses (individually assessed)**	**Credit-impaired financial assets (lifetime expected credit losses)**
CU'000				
Loss allowance as at 1 January	**X**	**X**	**X**	**X**
Changes due to financial instruments recognised as at 1 January:	X	–	(X)	–
- Transfer to lifetime expected credit losses	(X)	X	X	–
- Transfer to credit-impaired financial assets	(X)	–	(X)	X
- Transfer to 12-month expected credit losses	X	(X)	(X)	–
- Financial assets that have been derecognised during the period	(X)	(X)	(X)	(X)
New financial assets originated or purchased	X	–	–	–
Write-offs	–	–	(X)	(X)
Changes in models/risk parameters	X	X	X	X
Foreign exchange and other movements	X	X	X	X
Loss allowance as at 31 December	**X**	**X**	**X**	**X**

Significant changes in the gross carrying amount of mortgage loans that contributed to changes in the loss allowance were:

- The acquisition of the ABC prime mortgage portfolio increased the residential mortgage book by x per cent, with a corresponding increase in the loss allowance measured on a 12-month basis.
- The write off of the CUXX DEF portfolio following the collapse of the local market reduced the loss allowance for financial assets with objective evidence of impairment by CUX.
- The expected increase in unemployment in Region X caused a net increase in financial assets whose loss allowance is equal to lifetime expected credit losses and caused a net increase of CUX in the lifetime expected credit losses allowance.
- The significant changes in the gross carrying amount of mortgage loans are further explained below:

Mortgage loans–gross carrying amount	**12-month expected credit losses**	**Lifetime expected credit losses (collectively assessed)**	**Lifetime expected credit losses (individually assessed)**	**Credit-impaired financial assets (lifetime expected credit losses)**
CU'000				
Gross carrying amount as at 1 January	**X**	**X**	**X**	**X**
Individual financial assets transferred to lifetime expected credit losses	(X)	–	X	–
Individual financial assets transferred to credit-impaired financial assets	(X)	–	(X)	X
Individual financial assets transferred from credit-impaired financial assets	X	–	X	(X)
Financial assets assessed on collective basis	(X)	X	–	–
New financial assets originated or purchased	X	–	–	–
Write-offs	–	–	(X)	(X)
Financial assets that have been derecognised	(X)	(X)	(X)	(X)
Changes due to modifications that did not result in derecognition	(X)	–	(X)	(X)
Other changes	X	X	X	X
Gross carrying amount as at 31 December	**X**	**X**	**X**	**X**