Financial Instruments

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Scope

- Introduction
- Financial Assets
- Financial Liabilities
- Other Issues

Introduction

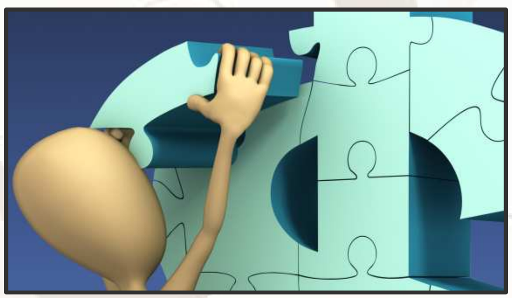
AS 30 – Measurement of financial instruments & their recognition

AS 31 – Definitions, off setting rules & bifurcation of liability and equity

AS 32 – Presentation & disclosure requirements

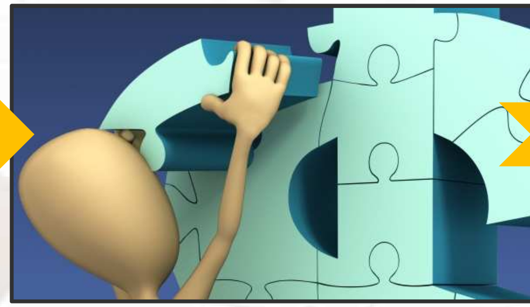
Implementation:

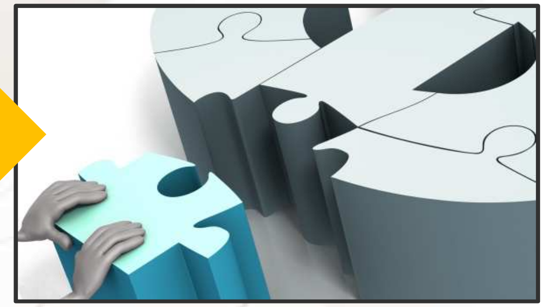
- Mandatory for period commencing after April 2011



- Recommendatory for period commencing after April 2009

Not applicable to:





- Employee benefits
- Lease (except embedded lease)
- Interest in Joint ventures, subsidiaries and associates
- Insurance contracts
- Equity as defined in AS 31

Withdrawal From Existing Regulations:

- Standards:
  - AS 4 (Contingencies and events occurring after the Balance Sheet date) – Contingencies
  - AS 11 (Effects of changes in Foreign Exchange rates) – Forward Exchange contracts
  - AS 13 (Investments) – Investments other than properties
- Guidance notes:
  - Guarantees and counter guarantees
  - Investments of Mutual funds
  - Securitization
  - Equity Index, stock futures and options

Financial Assets: Contents

- Definition
- Classification
- Measurement
- Reclassification
- Impairment

Definition

- Cash
- Equity instrument of other entity
- Contractual right to receive cash or another financial asset or exchange financial asset or liability with another entity under potential favorable conditions
- Instrument which can be settled in entity's own equity instrument –
  - Non derivative – receive variable number of own equity
  - Derivative – for fixed amount of own equity receive variable amount of cash or another financial asset

The major difference between financial asset and other assets is that financial asset gives present right to receive cash or another Financial Asset whereas other assets give opportunity to generate future cash flows

Classification

Held at Fair Value through P&L (HAFV)	Loans and Receivables
• Intention to sell in near future • Non hedge derivative • Inseparable embedded derivative • Puttable or equity instruments, perpetual debts, etc fall under this category • Disclosure: classification w.r.t. entity's risk management strategy	• Fixed payments • Non derivative • Non quoted • Eg. – unquoted debentures, trade receivables, etc

Classification contd….

Held to Maturity (HTM)	Available for Sale (AFS)
• Non derivative • Should have FIXED maturity period and payment • Entity intends to hold it till maturity • The intention to hold to maturity should be evaluated on every Balance Sheet date	• Residual category

Measurement

Initially:	Subsequently:

• All at Fair value
• Loans: effective interest method
• Transaction cost:
  • HTM & loans – add it to initial cost using effective interest method
  • AFS – 'Investment Revaluation Reserve' and amortize
  • Other – expense out in P&L
	• Loans, HTM, unquoted shares – amortized cost. Check for impairment on every reporting date
	• HAFV – changes in fair value transfer to P&L
	• AFS – changes in fair value transfer to 'Investment Revaluation Reserve'

Impairment:

HTM & loans:

- Impairment loss = carrying amount – PV future cash flow (initial effective interest rate)
- Loss either through reserve or directly from asset to P&L.
- Reduction in impairment loss reversed through reserve or directly from P&L to asset depending on the accounting treatment of impairment loss initially recorded.
- Those assets which cannot be assessed individually should be scrutinized under group of assets to which they belong.

Consider past loss event and not future expected

Impairment contd..:

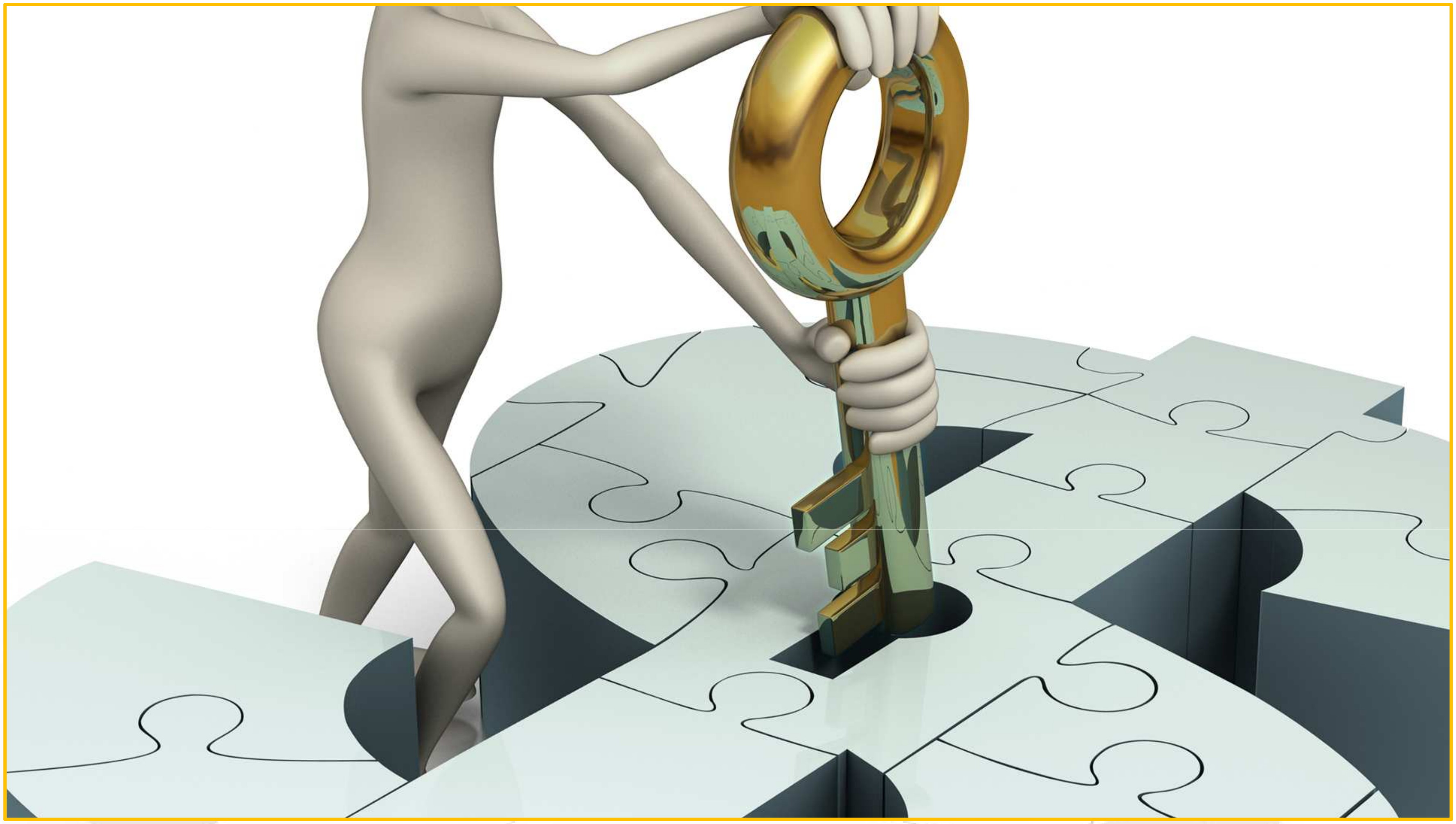
AFS:	Other assets at cost: (eg. Unquoted equity investments)
• Impairment loss = Net acquisition cost – current fair value • Cumulative loss reserve = transfer to P&L • Cumulative reserve = reduce reserve	• Impairment loss = carrying amount – PV future cash flow (current market rate) • Loss taken to P&L • Reversal not allowed

Re-classification

Situation	Result	Effects
• HTM Sold before maturity • Cease to fall under HTM – other factors	• These assets will be classified as AFS • Valued at fair value • Initially difference between 'Fair Value' & 'Carrying Amount' transfer to 'Investment Revaluation Reserve' • Further change in fair value through 'Investment Revaluation Reserve'	• No HTM category in the entity for 2 yrs. • After 2 yrs if any assets fall under HTM they can be re-classified.

Re-classification

Situation	Result	Effect
• After 2 yrs certain assets in AFS category fulfill conditions for HTM assets	• Reclassify these assets as HTM	• Fair value on the date of re-classification to be taken as 'Amortised Cost' • Asset has fixed maturity period – amortise 'Investment Revaluation Reserve' over its life • No maturity period – transfer to P&L on de-recognition • On impairment, amount impaired is transferred to P&L



Thank You

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