IFRS 9 Financial Instruments

Practical checklist - 2025 Edition

1 Scope: Does IFRS 9 apply?	✅ All types of financial instruments **except:** ❌ Exclude: entity's own equity instruments; interests in subsidiaries, associates, or joint ventures (refer to IFRS 10, IAS 27, IAS 28); rights and obligations resulting from leases (IFRS 16), insurance contracts (IFRS 17), employee benefit plans (IAS 19) and share-based payments arrangements (IFRS 2).
2 Initial Recognition	☐ Are financial instruments recognized only when the entity becomes a party to the contractual provisions?

3 Classification of Financial Assets	☐ Have you applied both:
	  ☐ Business model test;
	  ☐ SPPI test (solely payments of principal and interest)?
	☐ Based on the above, are assets correctly classified as:
	  ☐ At amortized cost;
	  ☐ At FVOCI;
	  ☐ At FVTPL (default or voluntary designation)?
	☐ If ESG-linked cash flows exist, have you assessed consistency with SPPI rules?

4 Classification of Financial Liabilities	☐ Are financial liabilities correctly classified as:
	  ☐ Measured at amortized cost;
	  ☐ FVTP (including derivatives)?
	☐ Have you accounted separately for:
	  ☐ Financial guarantee contracts;
	  ☐ Loan commitments at below-market rate;
	  ☐ Contingent consideration (IFRS 3)?

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5 Initial Measurement

Financial assets:

- ☐ Is the asset classified at **FVTPL**?
  - ✅ **YES** → Expense transaction costs immediately
  - ❌ **NO** → Add transaction costs to the initial carrying amount
- ☐ Can the fair value be reliably determined?
  - ✅ **YES** → Use quoted prices or valuation techniques based on observable inputs (refer to IFRS 13)
  - ❌ **NO** → Consider using cost **only** if it's the best estimate of fair value at initial recognition (rare)

Financial liabilities:

- ☐ Is the liability classified at **FVTPL**?
  - ✅ **YES** → Expense transaction costs immediately
  - ❌ **NO** → Add transaction costs to the initial carrying amount

Special considerations:

- ☐ Trade receivables without significant financing component → At transaction price
- ☐ Financial assets/liabilities acquired in a business combination → At fair value on acquisition date
- ☐ Hybrid financial instruments → Separate embedded derivatives if required and measure each part appropriately (see below)

6 Subsequent Measurement (part 1)

Financial assets:

- ☐ Classified at **amortized cost:**
  - ☐ Use effective interest method (EIR)
  - ☐ Recognize interest income in profit or loss using EIR
  - ☐ Assess expected credit loss (see below)

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6 Subsequent Measurement (part 2)

Financial assets:

- ☐ **Debt instruments** classified at **fair value through other comprehensive income (FVOCI)**:
  - ☐ Recognize interest income in profit or loss using EIR
  - ☐ Assess expected credit loss (see below), recognize in profit or loss
  - ☐ Recognize fair value changes in OCI
  - ☐ On derecognition, reclassify cumulative gains or losses from OCI to profit or loss.
- ☐ **Equity instruments** classified at **fair value through other comprehensive income (FVOCI)**:
  - ☐ Recognize all gains or losses in OCI, do not reclassify to profit or loss (no recycling)
  - ☐ Recognize dividends in profit or loss
- ☐ Classified at **fair value through profit or loss (FVTPL):**
  - ☐ Recognize all changes in fair value in profit or loss

Financial liabilities:

- ☐ Classified at **amortized cost:**
  - ☐ Use effective interest method (EIR)
  - ☐ Recognize interest expense in profit or loss using EIR
- ☐ Classified at **fair value through profit or loss (FVTPL):**
  - ☐ Recognize all changes in fair value in profit or loss, **except:**
    - ➜ For own credit risk on designated liabilities → recognize in OCI + no recycling to profit or loss on derecognition

CPD box

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7 Impairment of Financial Assets (Expected Credit Loss)	☐ Is the financial asset subject to ECL model? ✅ **YES:** trade receivables, contract assets (IFRS 15), lease receivables (IFRS 16), debt instruments at amortized cost, debt instruments at FVOCI ❌ **NO:** Equity instruments at FVOCI, all financial assets at FVTPL ☐ Which approach applies? ☐ **Default:** General (3-stage) model ☐ **Mandatory** for trade receivables without significant financing component, lease receivables and contract assets: Simplified model ☐ If using general model, have you identified stage? ☐ Stage 1: Performing - 12-month ECL ☐ Stage 2: Significant credit deterioration - lifetime ECL ☐ Stage 3: Credit impaired - lifetime ECL, interest on net carrying amount ☐ Are you using forward-looking information? ☐ Macro factors (e.g. unemployment rate, GDP) ☐ Multiple scenarios considered ☐ Consistent with other forecasts used internally ☐ Have you estimated key ECL components? ➜ ECL = **PD** (probability of default) x **EAD** (exposure at default) x **LGD** (loss given default) ☐ If using simplified model: ☐ Recognize lifetime ECL from day 1 ☐ Use provision matrix or historical loss data ☐ Group receivables based on risk characteristics ☐ Have you reviewed for write-offs? ☐ Asset is written off when no reasonable expectation of recovery ☐ Gross carrying amount and loss allowance reduced

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8 **Embedded derivatives**	☐ Have you identified any contracts that combine a non-derivative host with a derivative feature?
	☐ Have you reviewed contracts such as convertible bonds, structured loans, lease or service contracts with FX/inflation clauses?
	☐ If the host contract is a financial asset within the scope of IFRS 9 → Do not separate the embedded derivative; treat the whole instrument under IFRS 9
	☐ Is the host contract a financial liability or a non-financial contract (e.g. lease, service)? → Continue below
	☐ Are the separation criteria met?
	    ☐ Embedded derivative not closely related to the host contract
	    ☐ Embedded derivative meets the definition of a derivative on its own
	    ☐ Embedded derivative can be measured reliably
	    ✅ **YES:** Separate the embedded derivative and account for it under IFRS 9 + measure the host contract under the appropriate standard (e.g. IFRS 16, IAS 38)
	    ❌ **NO:** Do not separate + account for entire hybrid contract based on classification of host
	☐ Embedded derivative measured at fair value? (if not possible, measure entire hybrid contract at FVTPL)

9 **Hedge Accounting** (part 1)	☐ Is hedge accounting formally elected (it is optional)? ☐ Is hedging instrument an eligible derivative (or non-derivative for FX risk?) ☐ Is the hedged item a recognized asset/liability, firm commitment, or forecast transaction? ☐ Did you prepare proper hedge accounting documentation at the inception? ➜ Include: documentation of relationship and risk management strategy, identification of hedged risk and instruments, documentation of effectiveness assessment method

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9 Hedge Accounting (part 2)

- ☐ Are the hedge effectiveness criteria met?
  - ➜ Economic relationship, value changes not dominated by the credit risk, hedge ratio aligned with risk management
- ☐ Monitor effectiveness on an ongoing basis and rebalance the hedge ratio (if needed)
- ☐ Discontinue hedge accounting if eligibility or purpose no longer holds

10 Related IFRS Accounting Standards Cross-check

- ☐ **IAS 32 Financial Instruments: Presentation**
  - ➜ Defines financial instruments, distinction between liabilities and equity
- ☐ **IFRS 7 Financial Instruments: Disclosures**
  - ➜ Disclosure of risks, fair values, impairment and hedge accounting
- ☐ **IFRS 13 Fair Value Measurement**
  - ➜ Fair value measurement principles for all IFRS
- ☐ **IFRS 15 Revenue from Contracts with Customers**
  - ➜ Contract assets subject to ECL under IFRS 9
- ☐ **IFRS 16 Leases**
  - ➜ Lease receivables subject to ECL under IFRS 9